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Leland R. Snook
Director
State Regulation & Pricing

Tel. 602-250-3730
Fax 602-250-3003
e-mail Leland.Snook@aps.com

Mail Station 9708
PO Box 53999
Phoenix, Arizona 85072-3999

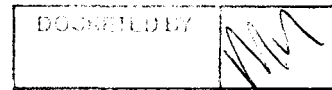
ORIGINAL

Arizona Corporation Commission
DOCKETED

May 28, 2009

MAY 28 2009

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007



RE: APS COMPLIANCE WITH DECISION NO. 70667 – APS/PINNACLE WEST COMMUNICATIONS WITH
CREDIT RATING AGENCIES
Docket No. E-01345A-08-0172

Attached please find copies of Arizona Public Service Company (APS) and Pinnacle West's available past communications with credit rating agencies as instructed per Decision No. 70667 (December 24th, 2008):

"Arizona Public Service Company shall file all currently existing communications within 10 days of the effective date of this Decision and shall file future communication on a monthly basis. The first such monthly report shall be due on February 1, 2009, and the monthly filing shall continue until the conclusion of Arizona Public Service Company's general rate case. Thereafter, Arizona Public Service Company shall make such filings on a six month basis, with the first filing due by January 1, 2010."

This monthly filing covers the communications with rating agencies from April 18, 2009 through May 22, 2009. If you have any questions or concerns please contact David Rumolo at (602)-250-3933.

Sincerely,

Leland R. Snook

LS/dst

Attachments

CC: Ernest Johnson (unredacted)
Brain Bozzo (unredacted)
Barbara Keene (unredacted)
Terri Ford (unredacted)

AZ CORP COMMISSION
DOCKET CONTROL

2009 MAY 28 P 2:11

RECEIVED

Rating Agency Communication Log

| Date | Person | APS/PNW Personnel | Subject | Comment |
|-----------|--------------------------|--------------------|--|-------------------------|
| 4/21/2009 | Tony Bettinelli, S&P | Jim McGill | E-mailed Tony our imputed debt calculations for renewable PPAs | Confidential Attachment |
| 4/22/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding GRC Settlement discussions | |
| 4/22/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding GRC Settlement discussions | |
| 4/22/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding GRC Settlement discussions | |
| 4/22/2009 | Laura Schumacher, Moodys | Jim McGill | Called Laura to tell her the documents for the tax-exempt refunding were being sent for her review | |
| 4/22/2009 | Phil Smyth, Fitch | Jim McGill | Called Phil to tell him the documents for the tax-exempt refunding were being sent for his review | |
| 4/22/2009 | Tony Bettinelli, S&P | Jim McGill | Called Tony to tell him the documents for the tax-exempt refunding were being sent for his review | |
| 4/22/2009 | Phil Smyth, Fitch | Jim McGill | E-mailed Phil the documents for the tax-exempt refunding | |
| 4/22/2009 | Laura Schumacher, Moodys | Jim McGill | E-mailed Laura the documents for the tax-exempt refunding | |
| 4/22/2009 | Tony Bettinelli, S&P | Jim McGill | E-mailed Tony the documents for the tax-exempt refunding | |
| 4/22/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from Tony regarding rates | |
| 4/22/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding dividend and Q1 earnings call | |
| 4/22/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding dividend and Q1 earnings call | |
| 4/22/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding dividend and Q1 earnings call | |
| 4/23/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from Tony regarding PPA imputed debt | Confidential Attachment |
| 4/23/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail to Tony regarding rates | |
| 4/23/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from Tony regarding rates | |
| 4/24/2009 | Phil Smyth, Fitch | Jim McGill | Called Phil to check availability for 5/19 meeting | |
| 4/24/2009 | Laura Schumacher, Moodys | Jim McGill | Called Laura to check availability for 5/19 meeting | |
| 4/24/2009 | Tony Bettinelli, S&P | Jim McGill | Called Tony to check availability for 5/19 meeting | |
| 4/27/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from Tony regarding 5/19 meeting | |
| 4/28/2009 | Phil Smyth, Fitch | Jim McGill | E-mail from Phil regarding 5/19 meeting | |
| 4/28/2009 | Tony Bettinelli, S&P | Rufad Omanovic | Tony left voice message wanting information on S-3 shelf registration | |
| 4/28/2009 | Tony Bettinelli, S&P | Rufad Omanovic | Rufad called Tony to discuss S-3 shelf registration | |

| | | | | |
|-----------|--------------------------|-------------------------------|---|-------------|
| 5/5/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding PNW Earnings Packet | |
| 5/5/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding PNW Earnings Packet | |
| 5/5/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding PNW Earnings Packet | |
| 5/5/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding PNW Earnings Guidance | |
| 5/5/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding PNW Earnings Guidance | |
| 5/5/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding PNW Earnings Guidance | |
| 5/5/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding PNW Q1 10Q | |
| 5/5/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding PNW Q1 10Q | |
| 5/5/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding PNW Q1 10Q | |
| 5/5/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding GRC Settlement | |
| 5/5/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding GRC Settlement | |
| 5/5/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding GRC Settlement | |
| 5/5/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail from Laura regarding 5/19 meeting | |
| 5/5/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail to Laura regarding 5/19 meeting | |
| 5/5/2009 | Phil Smyth, Fitch | Jim McGill | Voice mail from Phil regarding rate increase | |
| 5/5/2009 | Phil Smyth, Fitch | Jim McGill | E-mail to Phil regarding rate increase | |
| 5/7/2009 | Phil Smyth, Fitch | Chris Froggatt and Jim McGill | E-mail from Phil with tax-exempt rating letter | |
| 5/7/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail to Tony regarding APS unsecured ratings | |
| 5/7/2009 | Tony Bettinelli, S&P | Jim McGill | E-mail from Tony regarding APS unsecured ratings | |
| 5/8/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail from Laura regarding ratings letter for tax-exempt ratings | |
| 5/12/2009 | Phil Smyth, Fitch | Jim McGill | Voice mail from Phil regarding update reports | |
| 5/12/2009 | Phil Smyth, Fitch | Jim McGill | E-mail from Phil regarding update reports | |
| 5/12/2009 | Phil Smyth, Fitch | Jim McGill | Called Phil re: update reports | No comments |
| 5/12/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail to Laura regarding 5/19 meeting | |
| 5/12/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail from Laura regarding 5/19 meeting | |
| 5/12/2009 | Phil Smyth, Fitch | Jim McGill | E-mail to Phil regarding 5/19 meeting | |
| 5/13/2009 | Phil Smyth, Fitch | Jim McGill | E-mail from Phil regarding 5/19 meeting | |
| 5/13/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding schedule for retail rate settlement | |
| 5/13/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding schedule for retail rate settlement | |

| | | | | |
|-----------|---|--|--|---|
| 5/13/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding schedule for retail rate settlement | |
| 5/14/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail from Laura regarding 5/19 meeting | |
| 5/14/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail to Laura regarding 5/19 meeting | |
| 5/14/2009 | Laura Schumacher, Moodys | Jim McGill | E-mail from Laura regarding 5/19 meeting | |
| 5/18/2009 | Laura Schumacher, Moodys | Chris Froggatt and Jim McGill | Attended Moody's issuers conference | |
| 5/19/2009 | Phil Smyth, Rob Hornick, Glen Grabelski, Fitch | Jim Hatfield, Chris Froggatt, and Jim McGill | Meeting at Fitch office | Certain content in material is confidential |
| 5/19/2009 | Laura Schumacher, A.J. Sabatelle, Jim Hempstead, Larry Hess, Namsoo Lee, and Wesley Smyth, Moodys | Jim Hatfield, Chris Froggatt, and Jim McGill | Meeting at Moody's office | Certain content in material is confidential |
| 5/19/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail to Tony regarding ratings letter for tax-exempt bonds | |
| 5/19/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail from Tony regarding ratings letter for tax-exempt bonds | |
| 5/19/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail to Tony regarding ratings letter for tax-exempt bonds | |
| 5/19/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail to Tony regarding ratings letter for tax-exempt bonds | |
| 5/20/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail from Tony regarding ratings letter for tax-exempt bonds | |
| 5/20/2009 | Tony Bettinelli, S&P | Karen Dolyniuk | E-mail to Tony regarding ratings letter for tax-exempt bonds | |
| 5/22/2009 | Laura Schumacher, Moodys | Investor Relations | E-mail regarding Starwood Solar I | |
| 5/22/2009 | Phil Smyth, Fitch | Investor Relations | E-mail regarding Starwood Solar I | |
| 5/22/2009 | Tony Bettinelli, S&P | Investor Relations | E-mail regarding Starwood Solar I | |

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Tuesday, April 21, 2009 11:40 AM
To: 'Bettinelli, Antonio'
Subject: Renewables Imputed Debt for S and P 4-21-2009.xls

Attachments: Renewables Imputed Debt for S and P 4-21-2009.xls

Tony,
Here are the imputed debt calculations using the CT proxy. The Starwood project is new.



Renewables
Imputed Debt for S .

Attachment Intentionally Omitted -- Contains Confidential Information

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Wednesday, April 22, 2009 5:06 AM
Subject: PNW/APS: RETAIL RATE CASE UPDATE

This morning, we filed a Form 8-K regarding recent developments in settlement discussions related to Arizona Public Service Company's (APS) pending retail rate case. The text of the 8-K is below this message.

As always, if you have any questions about these developments or need other information about our company, please contact me or Lisa Malagon (602-250-5671).

Becky

Rebecca L. Hickman
Director of Investor Relations
Pinnacle West Capital Corporation
400 North 5th Street, Station 9998
Phoenix, Arizona 85004
(602) 250-5668 direct line
(602) 250-2789 fax
rhickman@pinnaclewest.com

TEXT OF FORM 8-K

Item 8.01. Other Events.

Arizona Public Service Company ("APS") General Rate Case

On April 21, 2009, during a public procedural conference, Arizona Public Service Company ("APS") and the parties to APS' pending general retail rate case advised an Arizona Corporation Commission ("ACC") administrative law judge that the parties had reached an agreement in principle on the revenue requirements at issue in the rate case, and that they continue to work through remaining settlement terms. The parties agreed that, by noon on May 4, 2009, they will file a term sheet with the ACC outlining the major terms agreed to by the parties and a request for procedural order, including the date for the filing of a definitive settlement agreement, as well as proposed testimony and hearing dates. The ACC must approve any definitive settlement agreement entered into by the parties. We cannot predict whether or when the parties will enter into a settlement agreement or, if the parties do so, whether or when the ACC would approve the settlement agreement. For information regarding the general rate case, see "2008 General Rate Case" in Note 3 of Notes to Consolidated Financial Statements in the Pinnacle West Capital Corporation/APS Report on Form 10-K for the fiscal year ended December 31, 2008.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Wednesday, April 22, 2009 11:16 AM
To: 'Philip.Smyth@fitchratings.com'
Subject: Tax-exempt refunding documents

Attachments: US_NE_500330604_1.DOC; 260604736(4)_Loan Agreement-APS_Navajo-2009.DOC;
260604735(3)_Indenture-APS_Navajo 2009.DOC

Phil,

Here are the documents we discussed. These are for the Navajo series - the Coconino and Maricopa documents are essentially the same as these.



US_NE_500330604 260604736(4)_Loa 260604735(3)_Inde
_1.DOC (275 KB)... n Agreement-AP... ntire-APS_Nav...

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Wednesday, April 22, 2009 11:17 AM
To: 'Schumacher, Laura'
Subject: Tax-exempt refunding documents

Attachments: US_NE_500330604_1.DOC; 260604736(4)_Loan Agreement-APS_Navajo-2009.DOC;
260604735(3)_Indenture-APS_Navajo 2009.DOC

Laura,

Here are the documents we discussed. These are for the Navajo series - the Coconino and Maricopa documents are essentially the same as these.



US_NE_500330604 260604736(4)_Loa 260604735(3)_Inde
_1.DOC (275 KB)... n Agreement-AP... ntire-APS_Nav...

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Wednesday, April 22, 2009 11:17 AM
To: 'Bettinelli, Antonio'
Subject: Tax-exempt refunding documents

Attachments: US_NE_500330604_1.DOC; 260604736(4)_Loan Agreement-APS_Navajo-2009.DOC;
260604735(3)_Indenture-APS_Navajo 2009.DOC

Tony,

Here are the documents we discussed. These are for the Navajo series - the Coconino and Maricopa documents are essentially the same as these.



US_NE_500330604 260604736(4)_Loa 260604735(3)_Inde
_1.DOC (275 KB)... n Agreement-AP... ntire-APS_Nav...

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Wednesday, April 22, 2009 12:37 PM
To: McGill, James T(Z71171)
Cc: Omanovic, Rufad (Z72366)
Subject: Rate question

Jim

Do you have tiered pricing for residential or commercial customers where the rate varies based on usage level? This is what exists in California and is also called an inverted block rate. If so, would you send me the tier pricing or a copy of your tariff book? Let me know.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
One Market Plaza
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
(415) 371-5067 Fax: (415) 371-5090
tony_bettinelli@sandp.com

The conference materials from the Standard & Poor's 16th Annual Utility Conference that took place on March 10, 2009 are available by clicking on www.events.standardandpoors.com/utility.

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McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Wednesday, April 22, 2009 2:16 PM
Subject: PNW: Dividend Declaration and Earnings Conference Call/Webcast

Today, we issued a press release announcing our latest dividend declaration and our 2009 first quarter earnings release conference call and webcast. The text of the release is included below in this message.

As always, if you need any information about our company, please contact me or Lisa Malagon (602-250-5671).

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations
Pinnacle West Capital Corporation
400 North 5th Street, Station 9998
Phoenix, Arizona 85004
Telephone: (602) 250-5668
Fax: (602) 250-2789
E-mail: rhickman@pinnaclewest.com

**PINNACLE WEST DECLARES QUARTERLY DIVIDEND;
ANNOUNCES FIRST-QUARTER CONFERENCE CALL**

PHOENIX – Pinnacle West Capital Corporation's (NYSE: PNW) board of directors today declared a quarterly dividend of \$0.525 per share of common stock, payable on June 1, 2009, to shareholders of record on May 1, 2009.

In addition, Pinnacle West plans to release its 2009 first-quarter results on Tuesday, May 5, 2009. That same day at 12:00 noon (ET), the Company invites interested parties to listen to a live web cast of management's conference call to discuss results and recent developments.

The web cast can be accessed at www.pinnaclewest.com/presentations and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter Conference ID Number 94112207. A replay of the call also will be available until 11:55 p.m. (ET), Tuesday, May 12, 2009, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same Conference ID number as above.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11.4 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

-30-

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, April 23, 2009 1:00 PM
To: McGill, James T(Z71171)
Subject: PPAs 2008.xls
Importance: High
Attachments: PPAs 2008.xls

Jim,

Here is our PPA debt calculation. Please call me if you have any questions.

Regards,
Tony

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

Attachment Intentionally Omitted -- Contains Confidential Information

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, April 23, 2009 1:17 PM
To: 'Bettinelli, Antonio'
Subject: Rate info request

Attachments: E-12.pdf; E-32.pdf



E-12.pdf (32 KB)



E-32.pdf (64 KB)



**RATE SCHEDULE E-12
RESIDENTIAL SERVICE
STANDARD RATE**

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to all Standard Offer and Direct Access electric service, except as stated below, required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one site through one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes. Rate selection is subject to paragraphs 3.2 through 3.5 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services.

This schedule is not applicable to breakdown, standby, supplemental or resale service.

TYPE OF SERVICE

The type of service provided under this schedule will be single phase, 60 Hertz, at a single standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's site). Three phase service may be furnished under the Company's Schedule 3 (Conditions Governing Extensions of Electric Distribution Lines and Services), and is required for motors of an individual rated capacity of 7-1/2 HP or more.

RATES

The customer's bill shall be computed at the following rates plus any adjustments incorporated in this schedule:

Bundled Standard Offer Service

Basic Service Charge: \$ 0.253 per day

Energy Charge:

| May – October Billing Cycles (Summer) | November – April Billing Cycles (Winter) |
|---|---|
| \$0.08570 per kWh for the first 400 kWh, plus \$0.12175 per kWh for the next 400 kWh, plus \$0.14427 per kWh for all additional kWh | \$0.08327 per kWh |

Bundled Standard Offer Service consists of the following Unbundled Components:

Unbundled Components

Basic Service Charge: \$ 0.056 per day



**RATE SCHEDULE E-12
RESIDENTIAL SERVICE
STANDARD RATE**

RATES (cont)

Unbundled Components (cont)

| | | |
|--------------------------------|------------|---------|
| Revenue Cycle Service Charges: | | |
| Metering | \$ 0.080 | per day |
| Meter Reading | \$ 0.055 | per day |
| Billing | \$ 0.062 | per day |
| System Benefits Charge: | \$ 0.00185 | per kWh |
| Transmission Charge: | \$ 0.00520 | per kWh |
| Delivery Charge: | \$ 0.03288 | per kWh |

Generation Charges:

| May – October Billing Cycles (Summer) | November – April Billing Cycles (Winter) |
|---|---|
| \$0.04577 per kWh for the first 400 kWh, plus \$0.08182 per kWh for the next 400 kWh, plus \$0.10434 per kWh for all additional kWh | \$0.04334 per kWh |

DIRECT ACCESS

The bill for Direct Access customers will consist of the Unbundled Components Basic Service Charge, the System Benefits Charge, and the Delivery Charge, plus any applicable adjustments incorporated in this schedule. Direct Access customers must acquire and pay for generation, transmission, and revenue cycle services from a competitive third party supplier. If any revenue cycle services are not available from a third party supplier and must be obtained from the Company, the Unbundled Components Revenue Cycle Service Charges will be applied to the customer's bill.

ADJUSTMENTS

1. The Environmental Portfolio Surcharge shall be applied to every retail electric service as set forth in the Company's Adjustment Schedule EPS-1 or successor schedules as approved by the Arizona Corporation Commission.
2. The bill is subject to the Power Supply Adjustment factor as set forth in the Company's Adjustment Schedule PSA-1 pursuant to Arizona Corporation Commission Decision No. 67744 and Arizona Corporation Commission Decision No. 69663.
3. The bill is subject to the Transmission Cost Adjustment factor as set forth in the Company's Adjustment Schedule TCA-1 pursuant to Arizona Corporation Commission Decision No. 67744.
4. The bill is subject to the Environmental Improvement Surcharge as set forth in the Company's Adjustment Schedule EIS pursuant to Arizona Corporation Commission Decision No. 69663.



**RATE SCHEDULE E-12
RESIDENTIAL SERVICE
STANDARD RATE**

ADJUSTMENTS (cont)

5. The bill is subject to the Competition Rules Compliance Charge as set forth in the Company's Adjustment Schedule CRCC-1 pursuant to Arizona Corporation Commission Decision No. 67744.
6. Direct Access customers returning to Standard Offer service may be subject to a Returning Customer Direct Access Charge as set forth in the Company's Adjustment Schedule RCDAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.
7. The bill is subject to the Demand Side Management Adjustment charge as set forth in the Company's Adjustment Schedule DSMAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.
8. The bill is subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of APS and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

CONTRACT PERIOD

Any applicable contract period will be set forth in APS' standard agreement for service.

TERMS AND CONDITIONS

Service under this rate schedule is subject to the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services and the Company's Schedule 10, Terms and Conditions for Direct Access. These schedules have provisions that may affect the customer's bill. In addition, service may be subject to special terms and conditions as provided for in a customer contract or service agreement.



**RATE SCHEDULE E-32
GENERAL SERVICE**

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to all Standard Offer and Direct Access electric service required when such service is supplied at one point of delivery and measured through one meter. Rate selection is subject to paragraphs 3.2 through 3.5 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services.

This schedule is not applicable to breakdown, standby, supplemental, residential or resale service nor to service for which Rate Schedule E-34 is applicable.

TYPE OF SERVICE

The type of service provided under this schedule will be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's site. Three phase service is furnished under the Company's Schedule 3 (Conditions Governing Extensions of Electric Distribution Lines and Services). Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceeds 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP. Service under this schedule is generally provided at secondary voltage, primary voltage when the customer owns the distribution transformer(s), or transmission voltage.

RATES

The bill shall be computed at the following rates or the minimum rates, whichever is greater, plus any adjustments incorporated in this rate schedule:

FOR MONTHLY MAXIMUM DEMANDS OF 20 kW OR LESS

Bundled Standard Offer Service

Basic Service Charge:

| | | |
|--|----------|-------------|
| For service through Self-Contained Meters: | \$ 0.575 | per day, or |
| For service through Instrument-Rated Meters: | \$ 1.134 | per day, or |
| For service at Primary Voltage: | \$ 2.926 | per day, or |
| For service at Transmission Voltage: | \$22.422 | per day |



**RATE SCHEDULE E-32
GENERAL SERVICE**

RATES (cont)

FOR MONTHLY MAXIMUM DEMANDS OF 20 kW OR LESS (cont)

Bundled Standard Offer Service (cont)

Energy Charge:

| May – October Billing Cycles (Summer) | November – April Billing Cycles (Winter) |
|---|---|
| For Secondary Service: \$0.11438 per kWh for the first 5,000 kWh, plus \$0.06254 per kWh for all additional kWh, or | For Secondary Service: \$0.09929 per kWh for the first 5,000 kWh, plus \$0.04745 per kWh for all additional kWh, or |
| For Primary Service: \$0.11160 per kWh for the first 5,000 kWh, plus \$0.05976 per kWh for all additional kWh | For Primary Service: \$0.09651 per kWh for the first 5,000 kWh, plus \$0.04467 per kWh for all additional kWh |

Bundled Standard Offer Service consists of the following Unbundled Components:

Unbundled Components

| | | |
|--------------------------------|----------|-------------|
| Basic Service Charge: | \$ 0.108 | per day |
| Revenue Cycle Service Charges: | | |
| Metering: | | |
| Self-Contained Meters: | \$ 0.345 | per day, or |
| Instrument-Rated Meters: | \$ 0.904 | per day, or |
| Primary: | \$ 2.696 | per day, or |
| Transmission: | \$22.192 | per day |

These daily metering charges apply to typical installations. Customers requiring specialized facilities are subject to additional metering charges that reflect the additional cost of the installation, (for example, a customer taking service at 230 kV). Adjustments to unbundled metering components will result in an adjustment to the bundled Basic Service Charge.

| | | |
|-------------------------|------------|---------|
| Meter Reading: | \$ 0.058 | per day |
| Billing: | \$ 0.064 | per day |
| System Benefits Charge: | \$ 0.00185 | per kWh |
| Transmission Charge: | \$ 0.00424 | per kWh |



**RATE SCHEDULE E-32
GENERAL SERVICE**

RATES (cont)

FOR MONTHLY MAXIMUM DEMANDS OF 20 kW OR LESS (cont)

Unbundled Components (cont)

Delivery Charge:

| May – October Billing Cycles (Summer) | November – April Billing Cycles (Winter) |
|---|---|
| For Secondary Service: \$0.03462 per kWh for the first 5,000 kWh, plus \$0.01045 per kWh for all additional kWh, or | For Secondary Service: \$0.03455 per kWh for the first 5,000 kWh, plus \$0.01038 per kWh for all additional kWh, or |
| For Primary Service: \$0.03184 per kWh for the first 5,000 kWh, plus \$0.00767 per kWh for all additional kWh | For Primary Service: \$0.03177 per kWh for the first 5,000 kWh, plus \$0.00760 per kWh for all additional kWh |

Generation Charge:

| May – October Billing Cycles (Summer) | November – April Billing Cycles (Winter) |
|---|---|
| \$0.07367 per kWh for the first 5,000 kWh, plus \$0.04600 per kWh for all additional kWh | \$0.05865 per kWh for the first 5,000 kWh, plus \$0.03098 per kWh for all additional kWh |

FOR MONTHLY MAXIMUM DEMANDS GREATER THAN 20 kW

Bundled Standard Offer Service

Basic Service Charge:

| | | |
|--|----------|-------------|
| For service through Self-Contained Meters: | \$ 0.575 | per day, or |
| For service through Instrument-Rated Meters: | \$ 1.134 | per day, or |
| For service at Primary Voltage: | \$ 2.926 | per day, or |
| For service at Transmission Voltage: | \$22.422 | per day |

Demand Charge:

| | |
|-----------------------|---|
| Secondary Service: | \$ 8.477per kW for the first 100 kW, plus \$ 4.509per kW for all additional kW, or |
| Primary Service: | \$ 7.865per kW for the first 100 kW, plus \$ 3.897per kW for all additional kW, or |
| Transmission Service: | \$ 6.132per kW for the first 100 kW, plus \$ 2.164per kW for all additional kW |



**RATE SCHEDULE E-32
GENERAL SERVICE**

RATES (cont)

FOR MONTHLY MAXIMUM DEMANDS GREATER THAN 20 KW (cont)

Bundled Components (cont)

Energy Charge:

| May – October Billing Cycles (Summer) | November – April Billing Cycles (Winter) |
|--|--|
| \$0.09115 per kWh for the first 200 kWh per kW, plus \$0.05330 per kWh for all additional kWh | \$0.07613 per kWh for the first 200 kWh per kW, plus \$0.03828 per kWh for all additional kWh |

Bundled Standard Offer Service consists of the following Unbundled Components:

Unbundled Components

Basic Service Charge: \$ 0.108 per day

Revenue Cycle Service Charges:

Metering:

Self-Contained Meters: \$ 0.345 per day, or
Instrument-Rated Meters: \$ 0.904 per day, or
Primary: \$ 2.696 per day, or
Transmission: \$22.192 per day

These daily metering charges apply to typical installations. Customers requiring specialized facilities are subject to additional metering charges that reflect the additional cost of the installation, (for example, a customer taking service at 230 Kv). Adjustments to unbundled metering components will result in an adjustment to the bundled Basic Service Charge.

Meter Reading: \$ 0.058 per day

Billing: \$ 0.064 per day

System Benefits Charge: \$ 0.00185 per kWh

Transmission Charge: \$ 1.585 per kW

Delivery Charge:

Secondary Service: \$ 6.892 per kW for the first 100 kW, plus
\$ 2.924 per kW for all additional kW, plus
\$ 0.00010 per kWh, or

Primary Service: \$ 6.280 per kW for the first 100 kW, plus
\$ 2.312 per kW for all additional kW, plus
\$ 0.00010 per kWh, or



**RATE SCHEDULE E-32
GENERAL SERVICE**

RATES (cont)

FOR MONTHLY MAXIMUM DEMANDS GREATER THAN 20 KW (cont)

Unbundled Components Delivery Charges (cont)

| | | |
|-----------------------|------------|------------------------------------|
| Transmission Service: | \$ 4.547 | per kW for the first 100 kW, plus |
| | \$ 0.579 | per kW for all additional kW, plus |
| | \$ 0.00010 | per kWh |

Generation Charge:

| May – October Billing Cycles (Summer) | November – April Billing Cycles (Winter) |
|--|--|
| \$0.08920 per kWh for the first 200 kWh per kW, plus \$0.05135 per kWh for all additional kWh | \$0.07418 per kWh for the first 200 kWh per kW, plus \$0.03633 per kWh for all additional kWh |

DIRECT ACCESS

The bill for Direct Access customers under this rate schedule will consist of the applicable Unbundled Components Basic Service Charge, System Benefits Charge, and Delivery Charge, plus any applicable adjustments incorporated in this schedule. Direct Access customers must acquire and pay for generation, transmission, and revenue cycle services from a competitive third party supplier. If any revenue cycle services are not available from a third party supplier and must be obtained from the Company, the applicable Unbundled Components Revenue Cycle Service Charges will be applied to the customer's bill.

MINIMUM

The bill for Standard Offer and Direct Access customers will not be less than the applicable Bundled Standard Offer Service Basic Service charge plus \$1.910 for each kW of either: (1) the highest kW established during the twelve (12) months ending with the current month; or (2) the minimum kW specified in an agreement for service, whichever is the greater.

POWER FACTOR

The customer deviation from phase balance shall not be greater than ten percent (10%) at any time. Customers receiving service at voltage levels below 69 kV shall maintain a power factor of 90% lagging but in no event leading unless agreed to by Company. Service voltage levels at 69 kV or above shall maintain a power factor of \pm 95% at all times. In situations where Company suspects that a customer's load has a non-confirming power factor, Company may install at its cost, the appropriate metering to monitor such loads. If the customer's power factor is found to be non-conforming, the customer will be required to pay the cost of installation and removal of VAR metering and recording equipment.

Customers found to have a non-conforming power factor, or other detrimental conditions shall be required to remedy problems, or pay for facilities/equipment that Company must install on its system to correct for problems caused by the customer's load. Until such time as the customer remedies the problem to Company satisfaction, kVa may be substituted for kW in determining the applicable charge for billing purposes for each month in which such failure occurs.



RATE SCHEDULE E-32 GENERAL SERVICE

DETERMINATION OF KW

For billing purposes, including determination of Monthly Maximum Demands, the kW used in this rate schedule shall be based on the average kW supplied during the 15-minute period of maximum use during the month as determined from readings of the Company's meter.

ADJUSTMENTS

1. The Environmental Portfolio Surcharge shall be applied to every retail electric service as set forth in the Company's Adjustment Schedule EPS-1 or successor schedules as approved by the Arizona Corporation Commission.
2. The bill is subject to the Power Supply Adjustment factor as set forth in the Company's Adjustment Schedule PSA-1 pursuant to Arizona Corporation Commission Decision No. 67744 and Arizona Corporation Commission Decision No. 69663.
3. The bill is subject to the Transmission Cost Adjustment factor as set forth in the Company's Adjustment Schedule TCA-1 pursuant to Arizona Corporation Commission Decision No. 67744.
4. The bill is subject to the Environmental Improvement Surcharge as set forth in the Company's Adjustment Schedule EIS pursuant to Arizona Corporation Commission Decision No. 69663.
5. The bill is subject to the Competition Rules Compliance Charge as set forth in the Company's Adjustment Schedule CRCC-1 pursuant to Arizona Corporation Commission Decision No. 67744.
6. Direct Access customers returning to Standard Offer service may be subject to a Returning Customer Direct Access Charge as set forth in the Company's Adjustment Schedule RCDAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.
7. The bill is subject to the Demand Side Management Adjustment charge as set forth in the Company's Adjustment Schedule DSMAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.
8. The bill is subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of APS and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

CONTRACT PERIOD

For customers with monthly maximum demands less than 2,000 kW, any applicable contract period will be set forth in the Company's standard agreement for service. For customers with monthly maximum demands of 2,000 kW or greater, and at the Company's option, the contract period will be three (3) years or longer where additional distribution construction is required to serve the customer or, if no additional distribution construction is required, the contract period will be one (1) year or longer.

TERMS AND CONDITIONS

Service under this rate schedule is subject to the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services and the Company's Schedule 10, Terms and Conditions for Direct Access. These schedules have provisions that may affect the customer's bill. In addition, service may be subject to special terms and conditions as provided for in a customer contract or service agreement.

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: David J. Rumolo
Title: Manager, Regulation and Pricing
Original Effective Date: November 1, 1983

A.C.C. No. 5659
Canceling A.C.C. No. 5579
Rate Schedule E-32
Revision No. 20
Effective: July 1, 2007

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, April 23, 2009 1:20 PM
To: McGill, James T(Z71171)
Subject: RE: Rate info request

Thanks.

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Thursday, April 23, 2009 1:17 PM
To: Bettinelli, Antonio
Subject: Rate info request

Email Firewall made the following annotations

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McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, April 27, 2009 12:41 PM
To: McGill, James T(Z71171)
Subject: RE: May 19

Just checked. Key NY participants are traveling on the 19th.

-----Original Message-----

From: James.McGill@pinnaclewest.com
[mailto:James.McGill@pinnaclewest.com]
Sent: Monday, April 27, 2009 12:33 PM
To: antonio_bettinelli@sandp.com
Subject: May 19

We are looking at possibly going out to NY to give you and other agencies an update on SunCor and the settlement. Would your team be available on the 19th? Probably for a 60 - 90 minutes.

Email Firewall made the following annotations

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McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Tuesday, April 28, 2009 7:08 AM
To: McGill, James T(Z71171)
Subject: 5/19 proposed update meeting...

Jim,

We are available on 5/19. Let me know what time. Attending in NYC would be Rob Hornick and Glen Grabelsky, in addition to me.

Phil

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McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Tuesday, May 05, 2009 5:16 AM
Subject: PNW/APS: First Quarter 2009 Earnings Release

Attachments: PNW Complete Earnings Packet .pdf; PNW Earnings release slides 5_5_09.pdf; Microsoft Office Excel Worksheet

Attachments:



PNW Complete
Earnings Packet



PNW Earnings
release slides 5_...

This morning, we released our first quarter 2009 earnings and filed a Form 8-K. The 8-K includes our 2009 and 2010 earnings outlook and supplemental information on quarterly operating statistics. For your convenience, we've attached a Complete Earnings Release and Analysis Packet (including earnings outlook). This information is also available on our website, www.pinnaclewest.com/investors.

The text of our earnings release is included below in this message. The 8-K related to our earnings outlook will be sent separately to limit the size of this message.

Conference Call and Webcast Access

We will host an earnings webcast and conference call today at 12:00 p.m. (ET). The live webcast can be accessed at www.pinnaclewest.com/presentations and will remain on the website for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter conference ID 94112207. A replay of the call will also be available through Tuesday, May 12, 2009, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same conference ID number.

We plan to use slides during our conference call and webcast. For your convenience, a PDF file of the slides is also attached.

As always, if you need information about our company, please contact me or Lisa Malagon (602-250-5671).

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

PINNACLE WEST REPORTS 2009 FIRST-QUARTER LOSS *Real Estate Charges Drive Consolidated Results; Milder Weather and Increased Costs Contribute to Lower APS Results*

PHOENIX – Pinnacle West Capital Corp. (NYSE: PNW) today reported a consolidated net loss attributable to common shareholders for the quarter ended March 31, 2009, of \$156.5 million, or \$1.55 per diluted share of common stock, compared with a net loss attributable to common shareholders of \$4.5 million, or \$0.04 per diluted share, for the same quarter in 2008. The lower results were driven largely by previously announced real estate charges, as well as rising costs incurred by Arizona Public Service (APS) related to its electric system expansion, and the effects of milder weather.

Excluding the real estate charges, Pinnacle West recorded a consolidated on-going loss of \$29.1 million or \$0.29 per share in the 2009 first quarter compared with a consolidated on-going loss of \$4.5 million, or \$0.04 per share, in the comparable 2008 quarter.

APS, the company's principal subsidiary, reported a quarterly net loss of \$15.5 million, compared with a net loss of \$6.4 million for the 2008 first quarter. In addition to the impact of milder weather, the utility's results were negatively impacted by lower mark-to-market valuations of fuel and power contracts, and higher costs related to continuing infrastructure additions and improvements. These items more than offset an interim retail electricity price increase implemented at the beginning of this year and transmission rate increases implemented in 2008.

"Even with the current economy, Arizona is still growing. With today's growth and an eventual economic rebound, APS expects to add another 600,000 customers by 2025 – a 55 percent increase over current levels," said Chairman Don Brandt. "We must continue preparing to meet this demand by investing in new infrastructure and technologies to ensure our customers' energy future continues to be highly reliable, as well as cleaner, more efficient and more responsive than ever before. To accomplish these goals, we will maintain a keen focus on energy efficiency, renewable energy expansion, productivity, customer technologies and financial strength."

As announced in early April, the Company's real estate subsidiary, SunCor, initiated a plan to dispose of a majority of its real estate assets through a series of strategic transactions. As a result of that decision, Pinnacle West's reported consolidated results for the 2009 first quarter include real estate charges totaling \$127.4 million after-tax. Execution of the restructuring plan is currently underway and will allow SunCor to maximize the value of its assets, concentrate on the Phoenix market, and substantially eliminate SunCor's outstanding debt. The company currently plans to complete the transactions in 2009.

For more information on Pinnacle West's operating statistics and earnings, please visit www.pinnaclewest.com/investors.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11.4 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

-30-

PINNACLE WEST CAPITAL CORPORATION
NON-GAAP FINANCIAL MEASURE RECONCILIATION
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS
(GAAP MEASURE) TO ON-GOING LOSS (NON-GAAP FINANCIAL MEASURE)

| | Three Months Ended March 31, 2009 | | Three Months Ended March 31, 2008 | |
|------------------------------------|--------------------------------------|-----------------|--------------------------------------|-----------------|
| | \$ in Millions | Diluted EPS | \$ in Millions | Diluted EPS |
| Net Loss Attributable to Common | (\$156.50) | (\$1.55) | (\$4.50) | (\$0.04) |
| Adjustment: | | | | |
| Real estate impairment and related | 127.4 | 1.26 | --- | --- |
| On-going Loss | <u>(\$29.10)</u> | <u>(\$0.29)</u> | <u>(\$4.50)</u> | <u>(\$0.04)</u> |

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Tuesday, May 05, 2009 5:17 AM
Subject: PNW/APS: Form 8-K Regarding Earnings Guidance

This morning, we filed a Form 8-K that includes, among other things, our 2009 and 2010 earnings guidance. The text of the 8-K regarding our earnings guidance is included below in this message. We have also attached a PDF file with earnings outlook reconciliations.

As always, please contact me or Lisa Malagon (602-250-5671) if you have any questions or need information about our company.

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

TEXT OF FORM 8-K

Item 7.01. Regulation FD Disclosure

2009 Earnings Outlook

In this discussion, earnings per share amounts are after income taxes and are based on diluted common shares outstanding. The earnings guidance in this Form 8-K supersedes all previous earnings guidance provided by Pinnacle West.

Our earnings forecasts are subject to numerous risks, including those described under "Forward-Looking Statements" below and under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

We estimate that our consolidated earnings for 2009 will be within a reasonable range around \$2.30 per share, excluding the impact of SunCor Development Company ("SunCor"). This guidance takes into account the effects of milder weather in the first quarter, as well as the 2009 portion of the annualized pretax cost savings identified in our March 2009 report to the Arizona Corporation Commission (the "ACC"), as required by the ACC's interim rate decision in December 2008.

We estimate that Arizona Public Service Company's ("APS") earnings contribution included in such consolidated earnings will be within a reasonable range around \$2.35 per share (equivalent to a return on APS' average common equity of about 7%). This estimate assumes that the interim base rate surcharge will remain in effect throughout 2009. We currently estimate that holding company expenses and other items, net, will be a net loss within a reasonable range around \$0.05 per share. For additional details regarding the major factors affecting our consolidated earnings outlook for 2009, see Exhibit 99.4 attached hereto.

2010 Earnings Outlook

Assuming APS' proposed general retail rate settlement is approved as proposed and is effective for the entire year, we estimate that our consolidated earnings for 2010, with negligible impact from SunCor, if any, will be within a reasonable range around \$3.00 per share. We estimate that APS' earnings contribution included in such 2010 consolidated earnings will be within a reasonable range around \$3.00 per share (equivalent to a return on APS' average common equity of about 9%). We currently estimate that holding company expenses and other items, net, will not have any meaningful impact on our 2010 consolidated financial results. For additional details regarding major factors affecting our consolidated earnings outlook for 2010, see Exhibit 99.5 attached hereto.

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Tuesday, May 05, 2009 5:18 AM
Subject: PNW/APS: First Quarter 2009 Form 10-Q

Attachments: PNW 1Q'09 Form 10-Q.pdf

The PDF file of the combined Pinnacle West and APS first quarter 2009 Form 10-Q is attached for your use. If you would like to receive a printed copy of the report, please let me know and we will be happy to mail it to you.

As always, please contact me or Lisa Malagon (602-250-5671) if you need information about our company.

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com



PNW 1Q'09 Form
10-Q.pdf (369 K...

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Tuesday, May 05, 2009 5:18 AM
Subject: PNW/APS: Proposed Retail Rate Case Settlement Terms

Attachments: APS Settlement Term Sheet 5_4_09.pdf; Request for Procedural Order 5_4_09.pdf

Yesterday, our utility subsidiary, Arizona Public Service Company (APS) and other parties to APS' pending retail rate case filed with the Arizona Corporation Commission a term sheet that outlines the terms of a jointly proposed settlement and a proposed procedural schedule for filing the definitive settlement agreement and testimony of the various parties, as well as a proposed hearing date. PDF files that include the term sheet and proposed schedule are attached for your convenience.

As always, if you have any questions about these documents or need other information about our company, please contact me or Lisa Malagon (602-250-5671).

Sincerely ~

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com



APS Settlement
Term Sheet 5_4_09.pdf



Request for
Procedural Order 5_4_09.pdf

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Tuesday, May 05, 2009 9:13 AM
To: McGill, James T(Z71171)
Subject: Meeting

Hello Jim,

Were you still interested in coming in on the 19th? We didn't set a time, so I don't have anything reserved yet.

Thanks,
Laura

*Laura Schumacher
Moody's Investors Service
7 World Trade Center
250 Greenwich Street
New York, New York 10007*

*phone: (212) 553-3853
fax: (212) 298-6316
laura.schumacher@moodys.com*

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McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Tuesday, May 05, 2009 10:30 AM
To: 'Schumacher, Laura'
Subject: RE: Meeting

Laura,
We're trying to work around scheduling issues now on our end. I will let you know soon.

From: Schumacher, Laura [mailto:Laura.Schumacher@moodys.com]
Sent: Tuesday, May 05, 2009 9:13 AM
To: McGill, James T(Z71171)
Subject: Meeting

Hello Jim,

Were you still interested in coming in on the 19th? We didn't set a time, so I don't have anything reserved yet.

Thanks,
Laura

*Laura Schumacher
Moody's Investors Service
7 World Trade Center
250 Greenwich Street
New York, New York 10007*

*phone: (212) 553-3853
fax: (212) 298-6316
laura.schumacher@moodys.com*

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McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Tuesday, May 05, 2009 11:43 AM
To: 'Philip.Smyth@fitchratings.com'
Subject: % rate increase would be 7.9%

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, May 07, 2009 2:48 PM
To: 'Bettinelli, Antonio'
Subject: Ratings e-mail

Tony,
We are mailing out the POS for Nav/Coco refunding Monday a.m. Would you please send Ivan Naguit at JPM your e-mail regarding the APS' unsecured ratings. Thanks.

Here is his e-mail address - ivan.l.naguit@jpmorgan.com

Jim

McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Thursday, May 07, 2009 2:15 PM
To: Froggatt, Chris N(F00454); McGill, James T(Z71171)
Subject: Fitch rating letter attached below

Attachments: PNW_APS_PCRB_Rating Letter_5.7.2009_P.pdf



PNW_APS_PCRB_R
ating Letter_5.7...

Chris, Jim,

I have attached below Fitch's letter to you rating the APS Navajo County, Arizona and Coconino County, Arizona Pollution Control Revenue Refunding Bonds. I will also send the letter to you via postal service. Please let me know if you have comments, questions or need anything further.

Best Regards,

Phil

Philip W. Smyth, CFA
Senior Director
Fitch Ratings
212 908 0531

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FitchRatings

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New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com

May 7, 2009

Mr. Christopher Froggatt
Vice President and Treasurer
Pinnacle West Capital Corp.
400 N. 5th Street, 20th floor
Phoenix, AZ 85004

Re: \$166.15 Million Navajo County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company Cholla Project) 2009 Series A, 2009 Series B, 2009 Series C, 2009 Series D, and 2009 Series E,

\$12.85 Million Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company Navajo Project) 2009 Series

Dear Mr. Froggatt,

Fitch Ratings ("Fitch") has assigned a 'BBB' rating to the above referenced securities. The Rating Outlook is Stable.

Ratings assigned by Fitch are based on the information and documents provided to us by you and other parties and are subject to receipt of the final closing documents. Fitch relies on all these parties for the accuracy of such information and documents. Fitch did not audit or verify the truth or accuracy of such information.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

The assignment of a rating by Fitch does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other filings under US, UK or any other relevant securities laws.

It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

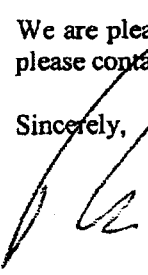
FitchRatings

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In this letter, "Fitch" means Fitch, Inc. and Fitch Ratings Ltd and any subsidiary of either of them together with any successor in interest to any such person.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact me at 212 908 0531.

Sincerely,



Fitch
Philip W. Smyth, CFA
Senior Director
Global Power

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, May 07, 2009 3:08 PM
To: ivan.l.naguit@jpmorgan.com
Cc: McGill, James T(Z71171)
Subject: S&P's Ratings on APS

Ivan,

S&P's current unsecured issue ratings on Arizona Public Service Co. are BBB-. The outlook is stable.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
One Market Plaza
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
(415) 371-5067 Fax: (415) 371-5090
tony_bettinelli@sandp.com

The conference materials from the Standard & Poor's 16th Annual Utility Conference that took place on March 10, 2009 are available by clicking on www.events.standardandpoors.com/utility.

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McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]

Sent: Friday, May 08, 2009 12:28 PM

To: McGill, James T(Z71171)

Subject: Tax Exempt Issues

Jim,

I just faxed a rating letter to your attention at 602-250-5640. Let me know if you need anything else.

Regards,

Laura

*Laura Schumacher
Moody's Investors Service
7 World Trade Center
250 Greenwich Street
New York, New York 10007*

*phone: (212) 553-3853
fax: (212) 298-6316
laura.schumacher@moodys.com*

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Moody's Investors Service

May 8, 2009

7 World Trade Center at 250 Greenwich Street
New York, New York 10007

Mr. Chris Froggatt
Vice President and Treasurer
Pinnacle West Capital Corporation
400 North 5th Street, 19th Fl
Mail Station 9996
Phoenix, AZ 85004

Dear Chris:

Per your request, Moody's Investors Service Rating Committee has reviewed a draft copy of the Preliminary Official Statement Dated May 2009 relating to the followings Bonds:

\$166,150,000
Navajo County, Arizona
Pollution Control Corporation
Pollution Control Revenue Refunding Bonds
(Arizona Public Service Company Cholla
Project)

\$12,850,000
Coconino County, Arizona
Pollution Control Corporation
Pollution Control Revenue Refunding Bonds
(Arizona Public Service Company Navajo
Project)

- 2009 Series A
- 2009 Series B
- 2009 Series C
- 2009 Series D
- 2009 Series E

2009 Series

Based upon our review and subject to final documentation, it is Moody's opinion that the Bonds, which represent senior unsecured obligations of Arizona Public Service Company be assigned the same rating as Arizona Public Service Company's other senior unsecured long-term debt obligations, which is currently Baa2.

Moody's rating is subject to revision or withdrawal at any time without prior notice. The rating and any revisions and withdrawals thereof are publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's rating desk.

If I may be of further assistance, please call me at (212) 553-3853.

Sincerely,

Laura Schumacher
Vice President - Senior Analyst

McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Tuesday, May 12, 2009 7:35 AM
To: McGill, James T(Z71171)
Subject: Fitch reports attached for you review....

Attachments: PNW_report_5.8.2009(draft).doc; APS_report_5.8.2009(draft).doc



PNW_report_5.8.2 APS_report_5.8.20
009(draft).doc... 09(draft).doc...

Hi Jim,

Please take a look at the attached PNW and APS update reports for factual accuracy. Let me know if you have any comments or questions.

Best Regards,

Phil
212 908 0531

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**Global Power
U.S. & Canada
Credit Update**

Pinnacle West Capital Corp.

Ratings

| Security Class | Current Rating |
|------------------|----------------|
| Long-Term IDR | BBB- |
| Short-Term IDR | F3 |
| Commercial Paper | F3 |

Outlook

Negative

Financial Data

Pinnacle West Capital Corp.
(\$ Mil.)

| | LTM 3/31/09 | 2008 |
|------------------------------|----------------|-------|
| Revenues | 3,260 | 3,367 |
| Gross Margin | 2,004 | 2,037 |
| Cash Flow From Operations | 512 | 813 |
| Operating EBITDA | 704 | 946 |
| Total Debt | 4,541 | 4,318 |
| Total Capitalization | 7,738 | 7,764 |
| ROE (%) | 2.27 | 6.94 |
| Capex/Depreciation (%) | 228.9 | 245.4 |

Analysts

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+1 212 908-0531
philip.smyth@fitchratings.com

Robert Hornick
+1 212 908-0523
robert.hornick@fitchratings.com

Related Research

- *Credit Analysis, Arizona Public Service Company, dated Jan. 22, 2008.*
- *Press Release, "Fitch: Arizona Commission Ruling in GRC Supports Arizona Public Service Co. & PNW Ratings," dated June 21, 2007.*
- *Press Release, "Fitch Lowers PNW & APS' Sr. Unsecured Ratings to 'BBB-' & 'BBB', Respectively; Outlook Stable," dated Jan. 30, 2006.*

Rating Rationale

- Pinnacle West Capital Corp.'s (PNW) ratings assume that the final order in Arizona Public Service Company's (APS) pending general rate case (GRC) will provide future revenues and cost recovery mechanisms sufficient for the utility sustain consolidated credit metrics which are currently consistent with PNW's 'BBB-' rating category. A final order in APS' GRC, originally filed on March 24, 2008, is expected before year-end 2009.
- PNW's recently announced restructuring of SunCor Development Corporation (SunCor), the parent company's wholly-owned real estate development subsidiary, is a constructive development, in Fitch's view. The continuation of the Negative Rating Outlook reflects ordinary execution risk associated with the plan.
- A final outcome in APS' pending GRC that would continue the pattern of under-earnings in 2010 and beyond would likely lead to further erosion of PNW's consolidated credit metrics and negative rating actions in the future.
- The filing of a term sheet with the Arizona Corporation Commission (ACC) outlining the major aspects of its recent agreement-in-principle with major intervenors in its general rate case (GRC) is supportive of PNW's current ratings.

What Could Trigger a Downgrade?

- Continued regulatory lag and/or an adverse GRC outcome in APS' pending rate case could lead to deteriorating creditworthiness and downgrades in the near-to-intermediate term.
- Inability to complete the SunCor restructuring plan in 2009.

Recent Events

The Rate and Financial Stability Plan for APS

In Jan. 2009, APS began settlement discussions with the relevant parties to its GRC that resulted in the filing of a summary term sheet of the agreement-in-principle with the ACC on Monday, May 4, 2009. The settlement agreement, dubbed "The Rate and Financial Stability Plan for APS" contemplates a \$207 million base rate increase effective January 1, 2010, predicated on an 11.0% authorized return on equity (ROE). Line extension fees would be recorded as revenues instead of contribution-in-aid-of-construction under the terms of the settlement. The agreement-in-principle as proposed would authorize deferral and recovery of pension and OPEB costs. APS also agrees to reduce operating costs \$150 million over five years (\$30 million per annum) and cap rates through July 1, 2012. In addition, APS will obtain \$700 million of equity infusions 2010 - 2014.

Importantly, the parties to the agreement intend to process future rate cases within 12 months of sufficiency findings, which would reduce regulatory lag and provide opportunity for improved utility earned returns. Please refer to the Arizona Public Service Company full report dated xx/xx/2009 for further information regarding the GRC agreement-in-principle.

SunCor Restructuring

In April 2009, PNW announced that it plans to divest virtually all of its real estate holdings, using cash proceeds to repay SunCor debt. PNW booked a \$202 million pretax write-down in the first quarter 2009 to reflect the anticipated asset disposal. If the plan is executed as envisioned by management, all but a relatively small number of SunCor properties would be sold. SunCor would continue to own land and commercial assets associated with SunCor's Hayden Ferry Lakeside project in Tempe, Arizona and approximately 2,000 acres of commercial land associate with its Palm Valley project located west of Phoenix, Arizona. Proceeds from the sale of property would be used to repay bank and project debt at SunCor and is expected to result in approximately \$80 million of tax credits that would be used by PNW to reduce parent company debt.

The \$202 million write-down at SunCor and non-payment of approximately \$24 million of project loans which recently matured violate certain covenants in the SunCor secured revolver and other SunCor credit facilities. SunCor is currently seeking to obtain waivers or similar relief from its lenders. If such relief is not forthcoming, SunCor could be required to immediately repay all debt outstanding resulting in a material adverse effect on SunCor's business. There are no cross defaults between PNW and SunCor.

Liquidity and Debt Structure

As of March 31, 2009, PNW had cash and cash equivalents totaling \$33 million on its consolidated balance sheet and total on-balance sheet debt of \$4.1 billion, including \$574 million of short-term debt and current maturities of long-term debt. PNW has a \$250 million commercial paper program backed by a \$283 million revolving credit agreement (net of Lehman Brothers unavailable \$17 million commitment), which matures December 2010. PNW has been unable to access commercial paper markets since September 2008. Parent company debt totaling \$175 million was outstanding as of March 31, 2009 and matures in February 2011. Fitch calculates PNW's adjusted debt-to-FFO was 6.5x and adjusted debt-to-total capitalization 59% as of March 31, 2009.

Pinnacle West Capital Corp.
(\$ in Millions)
Fiscal Year-End: December

| Financial Summary | 03/2009 LTM | 2008 YE | 2007 YE | 2006 YE | 2005 YE |
|---|----------------|---------|---------|---------|---------|
| Fundamental Ratios | | | | | |
| FFO/Interest Expense (x) | 3.9 | 4.8 | 4.0 | 2.9 | 4.6 |
| CFO/Interest Expense (x) | 3.1 | 4.4 | 3.7 | 2.7 | 4.4 |
| Debt/FFO (x) | 6.5 | 4.8 | 5.6 | 8.7 | 4.5 |
| Operating EBIT/Interest Expense (x) | 1.3 | 2.3 | 2.7 | 2.9 | 2.5 |
| Operating EBITDA/Interest Expense (x) | 2.9 | 3.9 | 4.2 | 4.4 | 4.1 |
| Debt/Operating EBITDA (x) | 6.5 | 4.6 | 4.0 | 3.7 | 3.9 |
| Common Dividend Payout (%) | 269.3 | 84.3 | 68.4 | 61.5 | 106.3 |
| Internal Cash/Cap. Ex (%) | 34.4 | 63.6 | 47.8 | 25.3 | 64.7 |
| Cap. Ex/Depreciation (%) | 228.9 | 245.4 | 252.0 | 211.1 | 241.1 |
| Profitability | | | | | |
| Adjusted Revenues | 3,260 | 3,367 | 3,523 | 3,402 | 2,988 |
| Net Revenues | 2,004 | 2,037 | 2,088 | 2,151 | 2,100 |
| Operating and Maintenance Expense | 822 | 808 | 735 | 691 | 636 |
| Operating EBITDA | 704 | 946 | 1,023 | 1,010 | 894 |
| Depreciation and Amortization Exp. | 394 | 390 | 373 | 359 | 348 |
| Operating EBIT | 310 | 556 | 650 | 651 | 546 |
| Gross Interest Expense | 242 | 241 | 244 | 228 | 216 |
| Net Income for Common | 75 | 242 | 307 | 327 | 176 |
| Oper. Maint. Exp. % of Net Revenues | 41.0 | 39.7 | 35.2 | 32.1 | 30.3 |
| Operating EBIT % of Net Revenues | 15.5 | 27.3 | 31.1 | 30.3 | 26.0 |
| Cash Flow | | | | | |
| Cash Flow from Operations | 512 | 813 | 659 | 393 | 730 |
| Change in Working Capital | (189) | (91) | (77) | (36) | (45) |
| Funds from Operations | 701 | 904 | 736 | 429 | 775 |
| Dividends | (202) | (204) | (210) | (201) | (187) |
| Capital Expenditures | (902) | (957) | (940) | (758) | (839) |
| Free Cash Flow | (592) | (348) | (491) | (566) | (296) |
| Net Other Investment Cash Flow | 58 | 48 | (25) | (25) | (11) |
| Net Change in Debt | 451 | 247 | 374 | 240 | (245) |
| Net Change in Equity | 2 | 4 | 24 | 40 | 298 |
| Capital Structure | | | | | |
| Short-Term Debt | 407 | 670 | 341 | 36 | 16 |
| Long-Term Debt | 4,134 | 3,648 | 3,759 | 3,703 | 3,502 |
| Total Debt | 4,541 | 4,318 | 4,100 | 3,739 | 3,518 |
| Total Hybrid Equity & Minority Interest | 34 | - | - | - | - |
| Common Equity | 3,163 | 3,446 | 3,532 | 3,446 | 3,425 |
| Total Capital | 7,738 | 7,764 | 7,632 | 7,185 | 6,943 |
| Total Debt/Total Capital (%) | 58.7 | 55.6 | 53.7 | 52.0 | 50.7 |
| Total Hybrid Equity & Minority Interest/Total Capital (%) | 0.4 | - | - | - | - |
| Common Equity/Total Capital (%) | 40.9 | 44.4 | 46.3 | 48.0 | 49.3 |

LTM - Latest 12 months. Operating EBIT - Operating income before total reported state and federal income tax expense.

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**Global Power
U.S. & Canada
Credit Analysis**

Arizona Public Service Company
(Subsidiary of Pinnacle West Capital Corporation)

Ratings

| Security Class | Current Rating |
|------------------------|----------------|
| Long-Term IDR | BBB- |
| Senior Unsecured Notes | BBB |
| Short-Term IDR | F3 |
| Commercial Paper | F3 |

Outlook

Stable

Financial Data

Arizona Public Service Co.
(\$ Mil.)

| | LTM 3/31/09 | 2008 |
|------------------------------|----------------|-------|
| Revenues | 3,110 | 3,133 |
| Gross Margin | 1,845 | 1,843 |
| Cash Flow From Operations | 475 | 784 |
| Operating EBITDA | 945 | 957 |
| Total Debt | 3,983 | 3,769 |
| Total Capitalization | 7,201 | 7,108 |
| ROE (%) | 7.72 | 7.83 |
| Capex/Depreciation (%) | 227.4 | 243.1 |

Analysts

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+1 212 908-0531
philip.smyth@fitchratings.com

Robert Hornick
+1 212 908-0523
robert.hornick@fitchratings.com

Related Research

- Credit Update, Pinnacle West Capital Corp., dated Jan. 17, 2008.
- Press Release, "Fitch: Arizona Commission Ruling in GRC Supports Arizona Public Service Co. & PNW Ratings," dated June 21, 2007.
- Press Release, "Fitch Lowers PNW & APS' Sr. Unsecured Ratings to 'BBB-' & 'BBB', Respectively; Outlook Stable," dated Jan. 30, 2006.

Rating Rationale

- Arizona Public Service Company's (APS) ratings were affirmed by Fitch on April 9, 2009 and consider the recently announced agreement-in-principle with staff and other relevant parties in its pending general rate case (GRC).
- While the Arizona Corporation Commission (ACC) is not bound by the proposed agreement-in-principle, adoption of a final order consistent the settlement would be a constructive development from a fixed income investor point-of-view. A final order in the proceeding, originally filed March 24, 2008, is expected by year-end 2009.
- APS' credit metrics are consistent the 'BBB' rating category as measured by funds from operations (FFO)-to-interest expense of 4.3x times (x) and debt leverage relative to FFO 5.6x for the twelve months ended March 31, 2009.
- Fitch notes that APS is currently collecting rates based on a 2005 test year and will adjust rates based on a 2007 test year at the conclusion of the current rate case, which is expected to be effective January 1, 2010. Failure to address regulatory lag would, in Fitch's view, result in a secular trend of weakening credit metrics likely to result in future negative rating actions.
- APS' scheduled maturities and new money financing requirements are manageable, in Fitch's opinion. The ratings assume future external financing to defray APS' large capital investment program will be funded with a balanced mix of equity and debt.
- The ratings also consider APS' competitive coal and nuclear generating capacity, the top quartile operating performance of its coal plant and improving operations at its Palo Verde Nuclear Generating Station. The nuclear generating station was removed from heightened Nuclear Regulatory Commission oversight in March 2009.

Key Rating Drivers

- APS's large capital expenditure program will require rate increases to maintain current creditworthiness. While the ratings assume a reasonable outcome in the utility's pending GRC, a final order significantly below Fitch's expectations can not be ruled out and could lead to adverse rating actions.
- Earnings attrition due to regulatory lag, if not addressed, could lead to significant deterioration to projected earnings and cash flows, resulting in future credit rating downgrades.

Recent Events

GRC Update: On Dec.18, 2008 the ACC issued an order authorizing a \$65 million annual, emergency interim base rate surcharge in response to APS' June 2008 filing requesting an emergency, interim rate increase of \$115 million, subject to refund.

On Dec. 19, 2008, the ACC staff, along with other intervening parties, filed testimony in APS' GRC. In its testimony, the staff supports a \$156 million non-fuel base rate increase, based on an 11.0% authorized ROE. The staff recommendation approximates 56% of APS' request and is a constructive development in Fitch's view.

The Rate and Financial Stability Plan for APS In Jan. 2009, APS began settlement discussions with the relevant parties to the GRC that resulted in the filing of a summary term sheet of the agreement in principle with the ACC on Monday, May 4, 2009. The settlement agreement, dubbed "The Rate and Financial Stability Plan for APS" contemplates a \$207 million base rate increase effective January 1, 2010, predicated on an 11.0% authorized return on equity (ROE). Line extension fees would be recorded as revenues instead of contribution-in-aid-of-construction under the terms of the settlement. The agreement-in-principle as proposed would authorize deferral and recovery of pension and OPEB costs. The company would reduce operating costs \$150 million over five years and agrees not to file a GRC before June 1, 2011 and rates would remain unchanged through July 1, 2012. In addition, APS agrees to obtain \$700 million of equity infusions 2010 - 2014.

Importantly, the parties to the agreement intend to process future rate cases within 12 months of sufficiency findings, which would reduce regulatory lag and provide opportunity for improved utility earned returns.

GRC Background APS filed its 2008 GRC with the ACC on March 24, 2008 based on a test year ending September 30, 2007. On June 2, 2008, at the request of the ACC staff, APS filed an updated rate request based on a test year ending December 31, 2007. The utility in its filing supports a \$278 million rate increase based on an 11.5% authorized ROE and a weighted average cost of capital of 8.86%. The company's proposed \$5.8 billion rate base includes units 5 and 6 of the Yucca Mountain plant, steam generator replacement at Palo Verde Nuclear Generating Station unit 3, and environmental upgrades to APS's coal plants.

Expected Timing of a Final ACC Order The parties to the "The Rate and Financial Stability Plan for APS," include the ACC staff, the residential utility consumer office and all major intervenor groups in the proceeding, are expected to file testimony in July 2009. A hearing is expected to be conducted in August 2009 before the ACC, which should facilitate an October 2009 administrative law judge proposed order and a final ACC order before year-end 2009.

Liquidity and Debt Structure

APS has a \$250 million commercial paper program in place, backed by its \$377 million revolving credit facility that matures in December 2010. To provide additional liquidity to meet its power supply related funding requirements, including collateral outlays, the company also has a \$489 million revolver in place that matures September 2011. Combined availability under APS' credit agreements of \$866 million is net of \$44 million unavailable due to the Lehman bankruptcy filing in September 2008. The facilities may be used for bank borrowings and/or letter of credit issuance of up to \$583 million. APS has been unable to access commercial paper markets since September 2008. In February 2009, APS issued \$500 million of 8.75% senior unsecured notes due 2019, using the proceeds to reduce short-term debt and for general corporate purposes.

At March 30, 2009, APS had cash and cash equivalents totaling \$18 million and total on-balance sheet debt of \$3.587 billion, composed of \$3.35 billion of long-term debt and \$237 million of short-term debt and current maturities. Scheduled long-term 2009 - 2013 APS debt maturities are manageable with \$400 million of 6.375% senior notes due in October 2011. On an adjusted basis, debt-to-FFO at APS was 5.6x as of March 30, 2009 and debt as a percent of total capitalization 55%. Fitch expects APS' reduced, albeit large capital investment program to require significant new money financing, which Fitch assumes will be provided through a balanced mix of equity and debt offerings.

Large Capital Expenditure Program

APS is in the midst of a major investment cycle that is expected to result in upward pressure on rates over the next several years. In 2008, APS announced a reduction to its planned capital spending program of \$700 million, reflecting eliminations and deferral of certain investment projects and reduced customer growth. Nonetheless, projected capital investment is estimated at \$2.5 billion during 2009 - 2011, a 2% increase from the \$2.418 billion of construction spending in 2006 - 2008. Fitch expects that significant external financing, both debt and equity, will be required to fund APS' investment program. Capital expenditures at APS are targeted primarily at transmission, distribution and environmental projects, and are net of contributions in aid of construction.

Arizona Public Service Co. Forecasted Capital Expenditures (\$ Mil.)

| | 2009 | 2010 | 2011 | Total, 2009-2011 |
|--------------|------|------|------|---------------------|
| Distribution | 276 | 266 | 356 | 898 |
| Transmission | 275 | 99 | 185 | 559 |
| Generation | 288 | 274 | 319 | 881 |
| Other | 44 | 37 | 50 | 131 |
| Total | 883 | 676 | 910 | 2,469 |

Source: Company filings.

Palo Verde Nuclear Generating Station Update

In March 2009, the Nuclear Regulatory Commission (NRC) removed the Palo Verde Nuclear Generating Station Unit 3 from the "multiple/repetitive degraded cornerstone column" and Units 1 and 2 from the "one degraded cornerstone column." Thus, PVNGS is returned to routine inspection and normal oversight by the NRC. The action follows completion of NRC inspection of corrective actions undertaken by PVNGS management to correct deficiencies. PVNGS unit 1 is currently out-of-service for refuelling and is expected to return to commercial operation by May 17, 2009. Unit 2 is scheduled for a 60 day outage in the fall to refuel the plant, replace its reactor head and installation of a rapid refuelling package. Finally with regard to PVNGS, APS has filed with the NRC to extend the nuclear generating station's operating license. A ruling from the NRC is expected in 18 - 24 months.

Arizona Public Service Co.
(\$ in Millions)
Fiscal Year-End: December

| Financial Summary | 03/2009 LTM | 2008 YE | 2007 YE | 2006 YE | 2005 YE |
|---|------------------------|----------------|----------------|----------------|----------------|
| Fundamental Ratios | | | | | |
| FFO/Interest Expense (x) | 4.3 | 5.5 | 4.6 | 3.6 | 4.4 |
| CFO/Interest Expense (x) | 3.2 | 4.7 | 4.8 | 3.1 | 5.1 |
| Debt/FFO (x) | 5.6 | 3.9 | 4.9 | 6.8 | 5.0 |
| Operating EBIT/Interest Expense (x) | 2.6 | 2.7 | 3.0 | 3.0 | 3.2 |
| Operating EBITDA/Interest Expense (x) | 4.4 | 4.5 | 4.9 | 4.9 | 5.0 |
| Debt/Operating EBITDA (x) | 4.2 | 3.9 | 3.6 | 3.6 | 3.4 |
| Common Dividend Payout (%) | 67.2 | 64.9 | 59.9 | 63.0 | 100.0 |
| Internal Cash/Cap. Ex. (%) | 34.1 | 65.0 | 65.1 | 33.1 | 86.8 |
| Cap. Ex./Depreciation (%) | 227.4 | 243.1 | 247.4 | 189.8 | 193.2 |
| Profitability | | | | | |
| Adjusted Revenues | 3,110 | 3,133 | 2,936 | 2,659 | 2,271 |
| Net Revenues | 1,845 | 1,843 | 1,785 | 1,689 | 1,582 |
| Operating and Maintenance Expense | 800 | 787 | 710 | 666 | 592 |
| Operating EBITDA | 945 | 957 | 972 | 921 | 891 |
| Depreciation and Amortization Exp. | 387 | 383 | 365 | 353 | 325 |
| Operating EBIT | 558 | 574 | 607 | 568 | 566 |
| Gross Interest Expense | 217 | 213 | 200 | 189 | 177 |
| Net Income for Common | 253 | 262 | 284 | 270 | 170 |
| Oper. Maint. Exp. % of Net Revenues | 43.4 | 42.7 | 39.8 | 39.4 | 37.4 |
| Operating EBIT % of Net Revenues | 30.2 | 31.1 | 34.0 | 33.6 | 35.8 |
| Cash Flow | | | | | |
| Cash Flow from Operations | 475 | 784 | 766 | 394 | 722 |
| Change in Working Capital | (238) | (182) | 46 | (91) | 115 |
| Funds from Operations | 713 | 966 | 720 | 485 | 607 |
| Dividends | (170) | (170) | (170) | (170) | (170) |
| Capital Expenditures | (880) | (931) | (903) | (670) | (628) |
| Free Cash Flow | (589) | (331) | (319) | (453) | (84) |
| Net Other Investment Cash Flow | 63 | 52 | (11) | (11) | 487 |
| Net Change in Debt | 514 | 276 | 216 | 309 | (157) |
| Net Change in Equity | 8 | 8 | 40 | 213 | 250 |
| Capital Structure | | | | | |
| Short-Term Debt | 236 | 522 | 218 | - | - |
| Long-Term Debt | 3,747 | 3,247 | 3,309 | 3,318 | 3,033 |
| Total Debt | 3,983 | 3,769 | 3,527 | 3,318 | 3,033 |
| Total Hybrid Equity & Minority Interest | - | - | - | - | - |
| Common Equity | 3,218 | 3,339 | 3,351 | 3,207 | 2,985 |
| Total Capital | 7,201 | 7,108 | 6,878 | 6,525 | 6,018 |
| Total Debt/Total Capital (%) | 55.3 | 53.0 | 51.3 | 50.9 | 50.4 |
| Total Hybrid Equity & Minority Interest/Total Capital (%) | - | - | - | - | - |
| Common Equity/Total Capital (%) | 44.7 | 47.0 | 48.7 | 49.1 | 49.6 |

LTM - Latest 12 months. Operating EBIT - Operating Income before total reported state and federal income tax expense.

Operating EBITDA - Operating Income before total reported state and federal income tax expense plus depreciation and amortization expense.

Source: Company Reports/Fitch Ratings

Note:

Numbers may not add due to rounding.

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McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Tuesday, May 12, 2009 9:05 AM
To: 'Schumacher, Laura'
Subject: Next week

How many from Moody's will be attending the meeting? Want to make sure we have enough books.

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moody.com]
Sent: Tuesday, May 12, 2009 3:51 PM
To: McGill, James T(Z71171)
Subject: Re: Next week

Hi Jim, I think five books should work.

-----Original Message-----

From: James.McGill@pinnaclewest.com <James.McGill@pinnaclewest.com>
To: Schumacher, Laura
Sent: Tue May 12 12:05:22 2009
Subject: Next week

How many from Moody's will be attending the meeting? Want to make sure we have enough books.

Email Firewall made the following annotations

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McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Tuesday, May 12, 2009 4:16 PM
To: 'Philip.Smyth@fitchratings.com'
Subject: vist

What is the address we need to go to for our meeting next week?

McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Wednesday, May 13, 2009 5:49 AM
To: McGill, James T(Z71171)
Subject: Re: Fitch meeting in NYC

Jim,

The meeting is at 33 - Whitehall Street (between Pearl and Bridge), which is just across the street (perpendicular to) our HQ building at One State Street Plaza). 33 Whitehall has the Fitch logo on it. You can't miss it.
Please proceed to the security desk at 33 - Whitehall and to the 18th floor Fitch reception desk.

We look forward to meeting with you and your colleagues @ 9:30AM on Tuesday, May 19, 2009. As I understand it, PNW attendees in addition to you will be Chris Froggatt and Jim Hatfield. Representing Fitch Ratings will be Glen Grabelsky, Rob Hornick and me.

Please do not hesitate to call if you need anything further.

Best Regards,

Phil

office: 212 908 0531
cell: 973 699 3852

James.McGill@pinn
aclewest.com

05/12/2009 07:16
PM

Philip.Smyth@fitchratings.com

To

cc

Subject

vist

What is the address we need to go to for our meeting next week?

Email Firewall made the following annotations

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This email has been scanned by the MessageLabs Email Security System.
For more information please visit <http://www.messagelabs.com/email>

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Wednesday, May 13, 2009 8:56 AM
Subject: PNW/APS: PROCEDURAL SCHEDULE FOR RETAIL RATE SETTLEMENT

The procedural schedule for Arizona Public Service Company's recently proposed retail rate case settlement has been issued by an Arizona Corporation Commission administrative law judge. The table below summarizes the key dates:

**Summary Procedural Schedule
For APS General Retail Rate Case Settlement**

| | | |
|-----------------|--------|---|
| June 12, 2009 | Fri. | Definitive settlement agreement filing |
| July 1, 2009 | Wed. | Supporting parties' testimony due |
| July 22, 2009 | Wed. | Opposing parties' testimony due |
| August 6, 2009 | Thurs. | Supporting parties' reply testimony due |
| August 19, 2009 | Wed. | Hearing begins |

This schedule is consistent with the one proposed by the settling parties last week, except the hearing will begin two days later than recommended.

As always, if you have any questions about this development or need other information about our company, please contact me or Lisa Malagon (602-250-5671).

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Thursday, May 14, 2009 7:24 AM
To: McGill, James T(Z71171)
Subject: FW: Next week

Jim, since you mentioned that Jim wanted to spend some time on our lease and pension adjustments, I have also now invited our accounting specialist, so, if you could bring an additional copy of the presentation, that would be great. If that is a problem, don't worry, we can always share.

Thanks,
Laura

-----Original Message-----

From: Schumacher, Laura
Sent: Tuesday, May 12, 2009 6:51 PM
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may be transferred via this e-mail message.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, May 14, 2009 7:25 AM
To: 'Schumacher, Laura'
Subject: RE: Next week

No problem. I'll bring six. Can you tell me who all will be there?

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From: Schumacher, Laura [mailto:Laura.Schumacher@moodys.com]
Sent: Thursday, May 14, 2009 7:24 AM
To: McGill, James T(Z71171)
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McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Thursday, May 14, 2009 8:11 AM
To: McGill, James T(Z71171)
Subject: RE: Next week

Sure.

Confirmed at the moment are, me, Larry Hess (Team MD), AJ Sababelle, Sr VP and back-up analyst for Pinnacle, Jim Hempstead, Sr VP, Namsoo Lee, Senior Associate who supports me, and Wesley Smyth our accounting specialist.

I think you know everyone except perhaps Namsoo and Wesley. Mitchell Moss, who is my primary support for Pinnacle, will unfortunately not be able to join us.

Looking forward to seeing you,
Laura

-----Original Message-----

From: James.McGill@pinnaclewest.com
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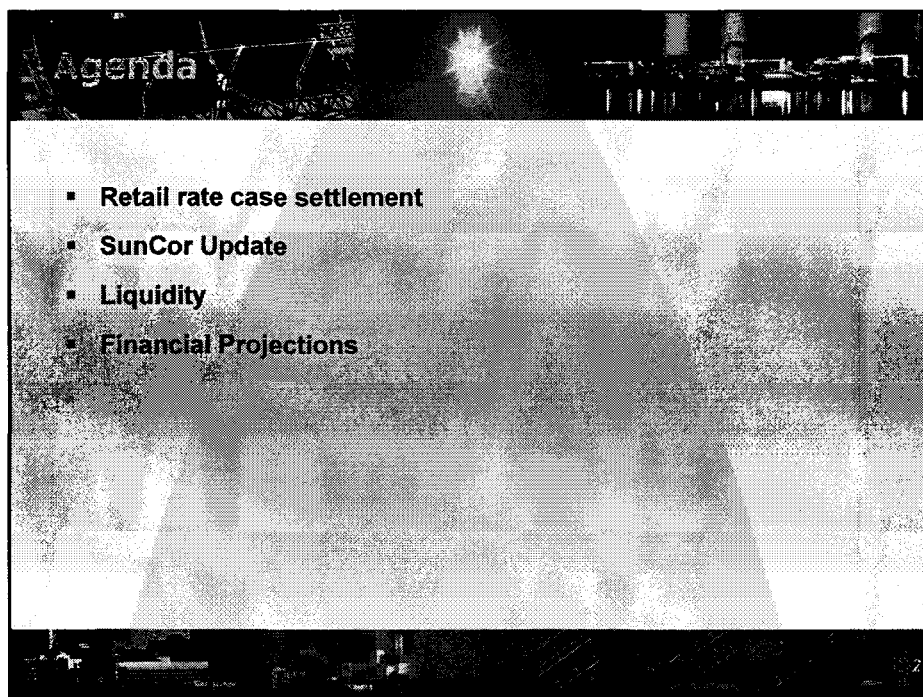
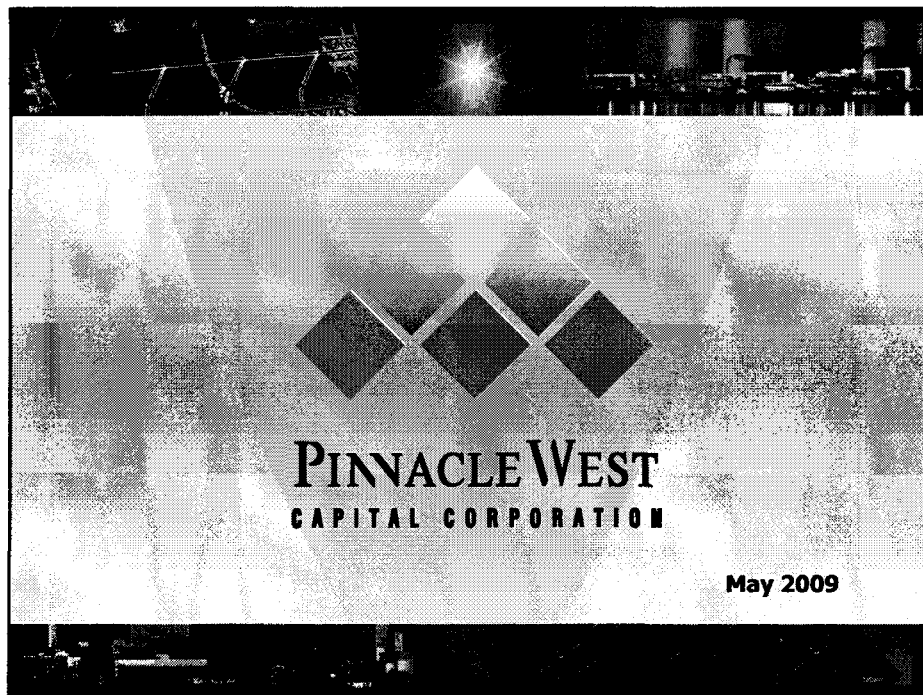
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Retail Rate Case Settlement



APS Proposed Retail Rate Settlement Rate and Financial Stability Plan

Proposed settlement has number of benefits from investors' perspective.

- Strengthens APS' financial condition and supports common dividend
- Provides greater level of cost recovery and return on investment
- Provides rate stability for APS customers
- Allows opportunity to help shape Arizona's energy future outside continual rate cases
- Continues strong APS commitment to cost control and efficiency
- Provides for significant increase in energy efficiency programs
- Expands renewable energy requirements and programs

APS Proposed Retail Rate Settlement Rate and Financial Stability Plan

Proposed revenue increases total \$230 million in 2010.

| | <u>Proposed Settlement</u> | <u>APS Request</u> |
|---|--------------------------------|------------------------|
| Base Retail Rates – | | |
| Annualized revenue increases (\$ millions): | | |
| Non-fuel | \$ 196 | \$ 264 |
| Net fuel-related | 11 | 14 |
| Net increase | <u>\$ 207</u> | <u>\$ 278</u> |
| Allowed ROE (%) | 11 | 11.5 |
| Base fuel rate (\$ per kWh) | 3.76 | 3.88 |
| Effective date | 1/1/2010 | 10/1/2009 |

Line Extension Fees – 2010 - 2012 payments received to be recorded as revenues instead of contributions in aid of construction (pretax estimates):

| | |
|--------|--------------|
| • 2010 | \$23 million |
| • 2011 | \$25 million |
| • 2012 | \$49 million |

APS Proposed Retail Rate Settlement Rate and Financial Stability Plan

Other key financial provisions included in the proposed settlement terms.

- Pension and OPEB Deferrals – 2011 - 2012 defer for future rate recovery differences between actual pension and OPEB costs and 2007 test year (\$24 million) as follows (pretax):
 - 2011 deferral not to exceed lower of \$13.5 million or 50% of cost above 2007 level
 - 2012 deferral not to exceed \$29 million
- Expense Reduction Commitment
 - Beginning in 2010, identify additional \$10 million pretax expense reductions above \$20 million identified March 2009
 - \$30 million average annual expense reductions to continue through 2014
- Equity Infusions
 - APS to obtain at least \$700 million of equity infusions in 2010 through 2014

(continued)

APS Proposed Retail Rate Settlement Rate and Financial Stability Plan

The settling parties have agreed to expedite processing future rate cases.

- APS may file general base rate cases on or after June 1, 2011 and June 1, 2013
- A base rate increase resulting from APS' next rate case may not become effective before July 1, 2012
- Settling parties intend to process future cases within 12 months of sufficiency findings

APS Proposed Retail Rate Settlement Rate and Financial Stability Plan

Schedule should allow final decision by year-end 2009.

| | |
|---|-----------------|
| Definitive settlement agreement filing | June 12, 2009 |
| Supporting parties' testimony due | July 1, 2009 |
| Opposing parties' testimony due | July 22, 2009 |
| Supporting parties' reply testimony due | August 6, 2009 |
| Hearing begins | August 19, 2009 |
| Rate increase effective | January 1, 2010 |



SunCor Update



Financial Impacts of SunCor Restructuring

Maximizing value of SunCor's remaining assets and eliminating its outstanding debt.

- 1st quarter 2009 real estate impairment, severance and related costs \$1.26 per share
- Eliminate SunCor's debt
- Produce \$80 million of cash tax benefits (estimated to be received late 2010)
- Reduce pretax G&A burn from \$44 million in 2008 to negligible amount after restructuring
- Eliminate future real estate earnings volatility

Liquidity Update

Adequate Liquidity Resources

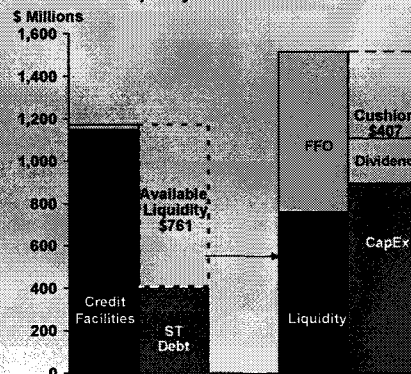
We have sufficient liquidity and access to credit.

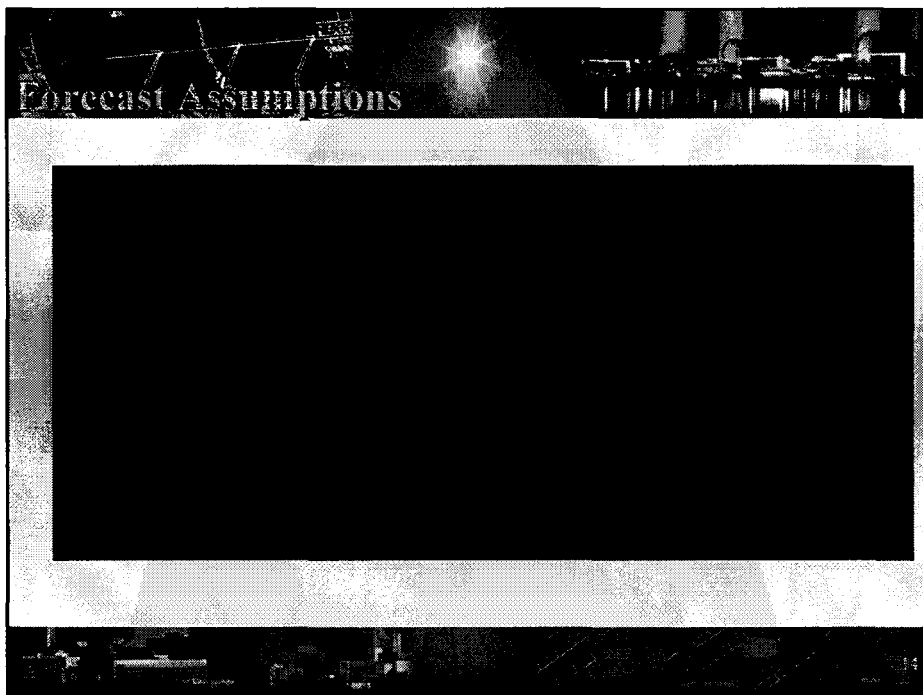
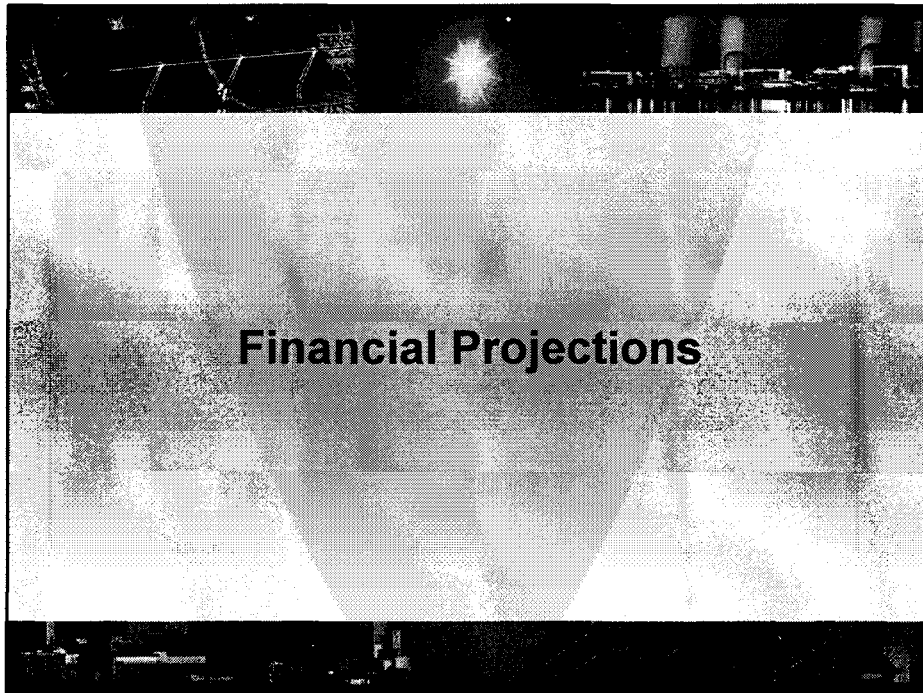
Credit Facilities

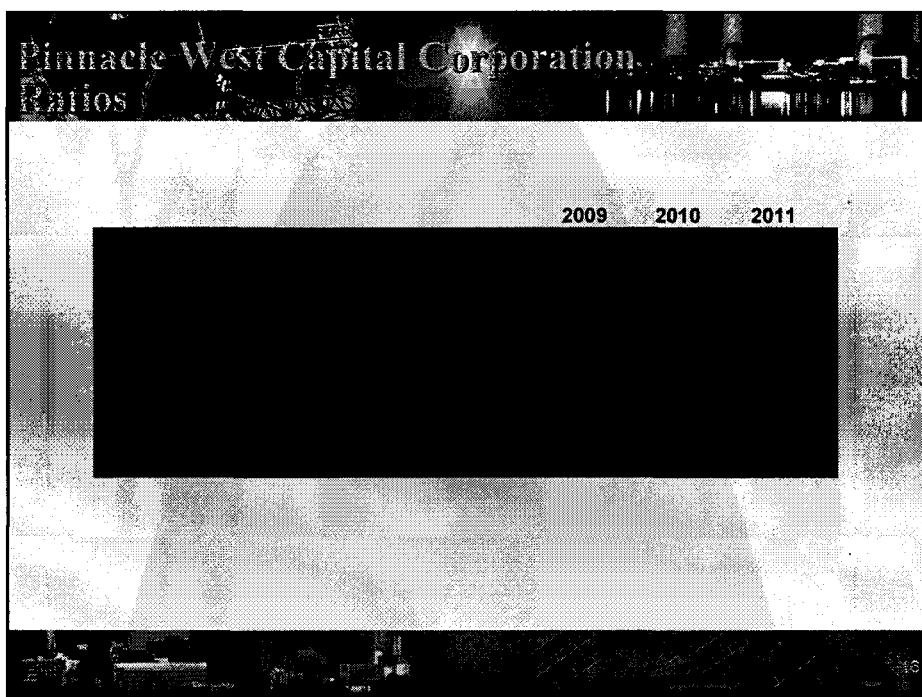
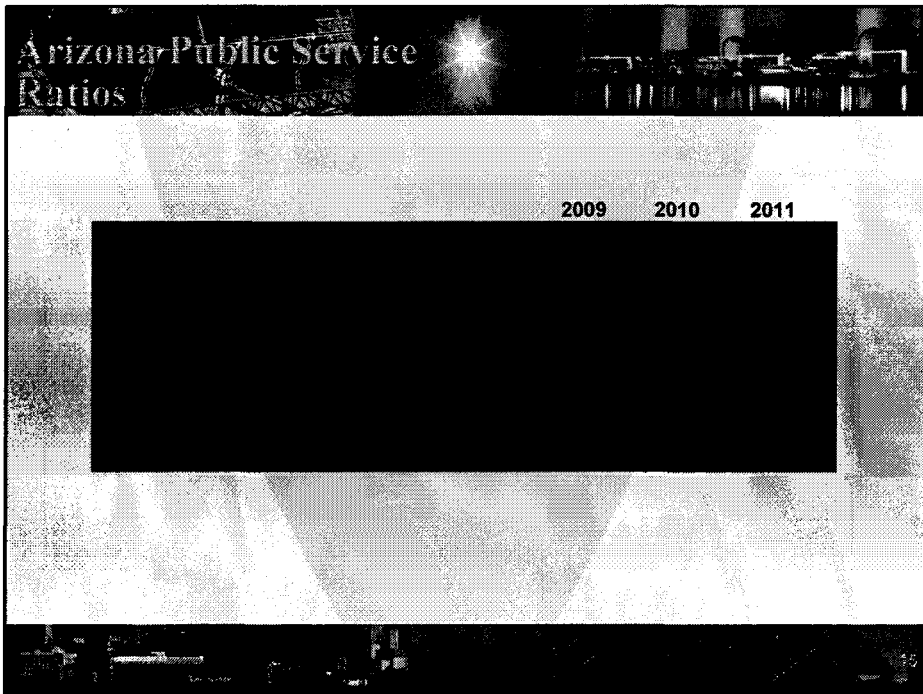
| Borrower | Capacity (\$ Millions) | Matures |
|----------|---------------------------|----------|
| PNW | \$ 283 | Dec. '10 |
| APS | 377 | Dec. '10 |
| APS | 489 | Sep. '11 |
| | \$1,149 | |

- Solid bank group
- No MAC clauses or "clean down" provisions

March 31, 2009 Available Liquidity





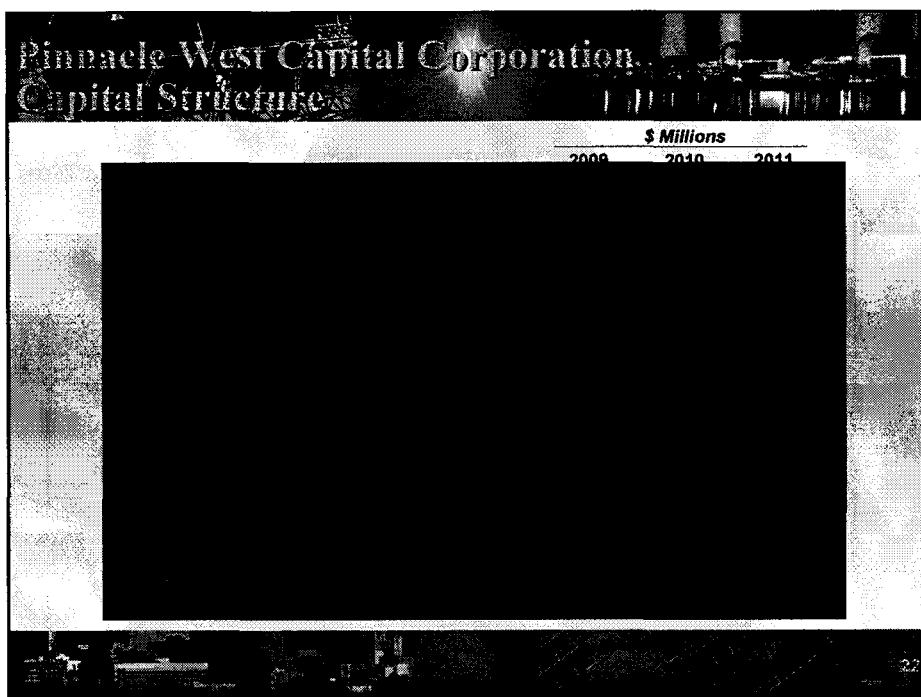
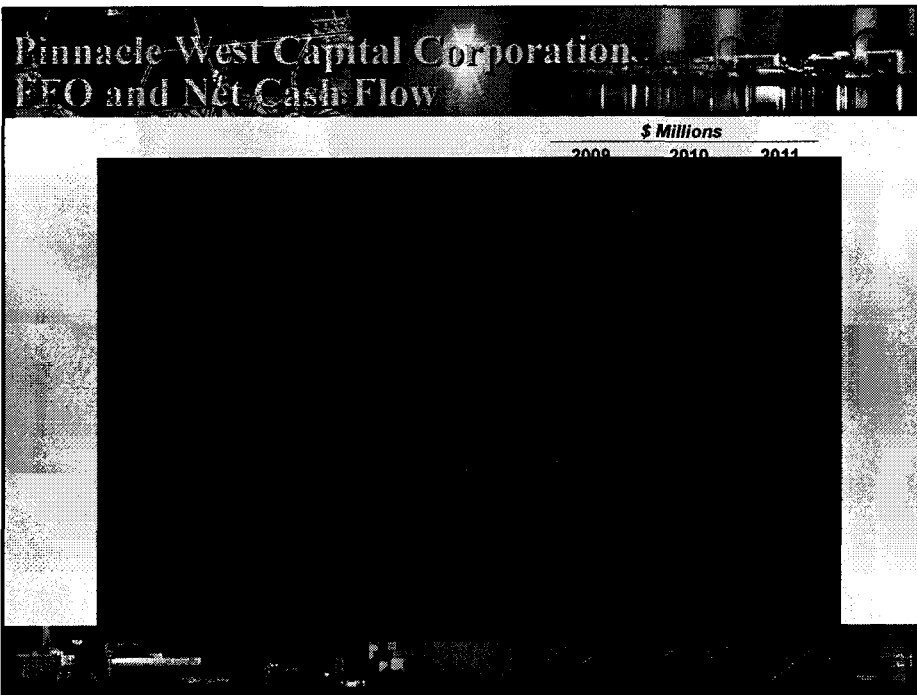


| Arizona Public Service Income Statement | | | |
|--|-------------|-------|-------|
| | \$ Millions | | |
| | 2009 | 2010 | 2011 |
| Operating income | 1,234 | 1,345 | 1,456 |
| Depreciation and amortization | 234 | 245 | 256 |
| Provision for doubtful accounts | 12 | 13 | 14 |
| Income tax expense | 156 | 167 | 178 |
| Other income (expense) | (12) | (13) | (14) |
| Net income | 1,392 | 1,510 | 1,622 |
| Preferred stock dividends | (12) | (13) | (14) |
| Income available to common stockholders | 1,380 | 1,497 | 1,608 |
| Basic earnings per share | 1.38 | 1.50 | 1.61 |
| Diluted earnings per share | 1.37 | 1.49 | 1.60 |
| Weighted average common shares outstanding | 1,000 | 1,000 | 1,000 |
| Weighted average diluted common shares outstanding | 1,000 | 1,000 | 1,000 |

| Arizona Public Service EFO and Net Cash Flow | | | |
|---|-------------|------|------|
| | \$ Millions | | |
| | 2009 | 2010 | 2011 |
| [REDACTED] | | | |

| Arizona Public Service Capital Structure | | | |
|---|-------------|------|------|
| | \$ Millions | | |
| | 2009 | 2010 | 2011 |
| | | | |

| Pinnacle West Capital Corporation Income Statement | | | |
|---|-------------|------|------|
| | \$ Millions | | |
| | 2009 | 2010 | 2011 |
| | | | |



McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Tuesday, May 19, 2009 1:46 PM
To: 'antonio_bettinelli@standardandpoors.com'
Cc: McGill, James T(Z71171)
Subject: Ratings Confirmation Letter

Importance: High

Attachments: APS Series 2009 Term Sheet.pdf; apspos.pdf

Hi Tony! We spoke earlier today regarding a ratings letter for our Navajo and Coconino bonds. Attached is the term sheet as well as the POS. We would very much appreciate receiving your letter today. Jim is out of the office today, so if you would please forward the letter to both Jim and myself that would be great. Please let me know if you need anything else from us.

Thank you!



APS Series 2009
Term Sheet.pdf...



apspos.pdf (329
KB)

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Tuesday, May 19, 2009 2:38 PM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: RE: Ratings Confirmation Letter

Thanks Tony.

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, May 19, 2009 2:15 PM
To: Dolyniuk, Karen E(J97440)
Cc: McGill, James T(Z71171)
Subject: RE: Ratings Confirmation Letter

The rating letter will come tomorrow. There are several procedural steps involved. Please call me if you have any questions.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
One Market Plaza
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
(415) 371-5067 Fax: (415) 371-5090
tony_bettinelli@sandp.com

The conference materials from the Standard & Poor's 16th Annual Utility Conference that took place on March 10, 2009 are available by clicking on www.events.standardandpoors.com/utility.

From: Karen.Dolyniuk@aps.com [mailto:Karen.Dolyniuk@aps.com]
Sent: Tuesday, May 19, 2009 1:46 PM
To: Bettinelli, Antonio
Cc: James.MCgill@pinnaclewest.com
Subject: Ratings Confirmation Letter
Importance: High

Hi Tony! We spoke earlier today regarding a ratings letter for our Navajo and Coconino bonds. Attached is the term sheet as well as the POS. We would very much appreciate receiving your letter today. Jim is out of the office today, so if you would please forward the letter to both Jim and myself that would be great. Please let me know if you need anything else from us.

Thank you!

5/21/2009

Page 75 of 84

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

Email Firewall made the following annotations

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McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Wednesday, May 20, 2009 11:05 AM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: RE: Ratings Confirmation Letter

Thank you so much!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Wednesday, May 20, 2009 11:03 AM
To: Dolyniuk, Karen E(J97440)
Cc: McGill, James T(Z71171)
Subject: RE: Ratings Confirmation Letter

Here it is.

From: Karen.Dolyniuk@aps.com [mailto:Karen.Dolyniuk@aps.com]
Sent: Tuesday, May 19, 2009 1:46 PM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com
Subject: Ratings Confirmation Letter
Importance: High

Hi Tony! We spoke earlier today regarding a ratings letter for our Navajo and Coconino bonds. Attached is the term sheet as well as the POS. We would very much appreciate receiving your letter today. Jim is out of the office today, so if you would please forward the letter to both Jim and myself that would be great. Please let me know if you need anything else from us.

Thank you!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

Email Firewall made the following annotations

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STANDARD & POOR'S

Corporate & Government Ratings

55 Water Street
New York, NY 10041-0003

May 20, 2009

Mr. James T. McGill
Director of Corporate Finance & Treasury
Arizona Public Service Co.
400 North 5th Street
MS-9996
Phoenix, AZ 85004

Re: ARIZONA PUBLIC SERVICE CO.

Navajo County Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company Cholla Project)

\$38,150,000 5.00% Series 2009A, due 2034

\$32,000,000 5.50% Series 2009B, due 2034

\$32,000,000 5.50% Series 2009C, due 2034

\$32,000,000 5.75% Series 2009D, due 2034

\$32,000,000 5.75% Series 2009E, due 2034

\$12,850,000 5.5% Coconino County Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company Navajo Project) 2009 Series A, due 2034

Dear Mr. McGill:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "BBB-".

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

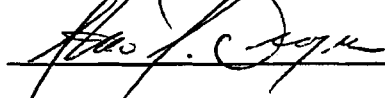
Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information, if necessary, to maintain the rating. Please send all information to Anne Selting at Standard & Poor's Corporate Ratings, 55 Water Street, New York, NY 10041.

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Analytical Contact: Anne Selting
Phone: 415-371-5009

STANDARD & POOR'S

Standard & Poor's Ratings Services Terms and Conditions Applicable To U.S. Corporate Ratings

Scope of Rating. The Company understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the Company's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the Company will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the Company or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the Company, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

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Information to be Provided by the Company. The Company shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The Company also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the Company or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by the Company or its agents. Standard & Poor's reserves the right to withdraw the rating if the Company or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean information received by Standard & Poor's from the Company which has been marked "Proprietary and Confidential" or in respect of which Standard & Poor's has received from the Company specific written notice of its proprietary and confidential nature. Notwithstanding the foregoing, information disclosed by the Company shall not be deemed to be Confidential Information, and Standard & Poor's shall have no obligation to treat such information as Confidential Information, if such information (i) was substantially known by Standard & Poor's at the time of such disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by Standard & Poor's act) subsequent to such disclosure, (iv) is disclosed lawfully to Standard & Poor's by a third party subsequent to such disclosure, (v) is developed independently by Standard & Poor's without reference to the Confidential Information, (vi) is approved in

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Standard & Poor's Not an Advisor, Fiduciary, or Expert. The Company understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the Company and that the Company should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the Company or between Standard & Poor's and recipients of the rating. The Company understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The Company agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the Company or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the Company or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The Company acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Confidential Information", "Standard & Poor's Not an Advisor, Fiduciary, or Expert", and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Friday, May 22, 2009 10:51 AM
Subject: PNW/APS: SECOND MAJOR SOLAR PLANT ANNOUNCED

Attachments: StarwoodFact Sheet.pdf

We issued a press release this morning announcing plans for a second major concentrating solar plant in Arizona. Starwood Solar I will be a 290-megawatt facility, which is scheduled to begin delivering power in 2013. APS plans to purchase all of the output from the plant. The text of the press release is included below in this message. A fact sheet on the plant is also attached.

As always, if you have any questions about this announcement or need other information about our company, please call me or Lisa Malagon (602-250-5671).

Sincerely,

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

**APS, STARWOOD ENERGY TO COLLABORATE
ON MAJOR CONCENTRATING SOLAR PLANT**

APS to Provide More Solar Electricity per Customer than any other U.S. Utility

PHOENIX – Arizona Public Service and Starwood Energy Group Global, LLC announced plans today for a 290-megawatt concentrating solar plant – among the largest in the world – to be built in the Harquahala Valley, 75 miles west of Phoenix. It will produce enough electricity to power more than 73,000 APS customer homes.

Scheduled for completion in 2013, Starwood Solar I will be owned by an affiliate of Starwood Energy with all the electricity generated by the facility provided to APS through a long-term purchase power agreement. Lockheed Martin, a leading global security company with extensive systems integration expertise, will design, build and operate the facility.

"A more sustainable future that highlights solar energy is a vision we share with our regulators at the Arizona Corporation Commission, the Governor and our customers throughout the state," said APS Chairman and Chief Executive Officer Don Brandt. "Starwood Solar I represents a major addition to the APS generation fleet and further strengthens our position as a leader in using the sun to generate electricity. This is yet another meaningful step in making Arizona the solar capital of the world."

Starwood Solar I will be constructed on approximately 1,900 acres and include 3,500 parabolic mirrors that will focus solar thermal energy onto a heat transfer fluid. The hot fluid will convert water into steam, which then turns the plant's turbines to create electricity, much like a traditional power plant. The plant also uses molten salt to store solar energy and continue producing electricity for up to six hours after the sun goes down – or through the period of highest electricity usage during hot Arizona evenings.

"We are delighted to enter into such an important relationship with APS and the people of Arizona," said Brad Nordholm, Chief Executive Officer of Starwood Energy. "Along with Lockheed Martin, we look forward to completing this project and providing cost-effective solar power for many decades."

Principals at Starwood Energy and its affiliates have developed or acquired 37 power generation and transmission projects totaling over \$12 billion in value.

"Lockheed Martin is very pleased to partner on the Starwood Solar I project. Our expertise with engineering and production makes us uniquely qualified to serve as the project's Engineering, Procurement and Construction contractor," said Chris Myers, Lockheed Martin Vice President for Solar Energy programs. "To drive to successful completion on this project, we are applying the kind of world-class systems engineering and disciplined integration approaches that all of our domestic and international customers enjoy."

This is the third major solar power announcement for APS this month, in what comprises the "APS Solar Tour – Spring 2009." Previous "tour stops" this month included the announcement of the APS Community Power Project in Flagstaff and the dedication of a new solar project providing energy at the Grand Canyon.

In addition, this is the second purchase power agreement by APS for energy from a concentrating solar plant. In February 2008, APS signed an agreement with Abengoa Solar for the power from the to-be-built 280-megawatt Solana Solar Plant. With Solana, Starwood Solar I and other contractual agreements, APS expects to have 800 megawatts of energy in its renewable energy portfolio in 2014. This is enough energy for nearly one-quarter of a million customers and ensures that APS will exceed the requirements of the ACC-established renewable energy standard. The project requires the approval of the ACC.

"With Starwood Solar I, Solana and our other projects, APS will provide more solar electricity per customer than any utility in the country," Brandt said.

Currently, the company has more than 157 megawatts of energy coming from a variety of renewable sources, including concentrating solar, photovoltaic solar, wind, biomass and geothermal. While some of the energy comes from APS and customer-owned systems, a majority comes from purchase power agreements such as the one just signed with Starwood LLC.

About Starwood Energy Group LLC

Starwood Energy is a private equity firm focused on energy and infrastructure investment. Starwood Energy is an affiliate of Starwood Capital Group, a leading real estate private equity firm founded in 1991 and led by Barry Sternlight. More information is available at www.starwoodenergygroup.com.

About Lockheed Martin

Headquartered in Bethesda, Md., Lockheed Martin is a global security company that employs about 146,000 people worldwide and is principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. The corporation reported 2008 sales of \$42.7 billion.

About APS

APS, Arizona's largest and longest-serving electricity utility, serves more than one million customers throughout the state. With headquarters in Phoenix, APS is the largest subsidiary of Pinnacle West Capital Corp. (NYSE: PNW).



StarwoodFact
Sheet.pdf (199 KB...